15. ITALIAN HOUSEHOLDS’ INCOME AND WEALTH: A LONG-TERM VIEW

The survey on household income and wealth (SHIW), conducted by the Bank of Italy since the mid-1960s, is among the longest-running surveys in the world. Micro data on important socio-demographic aspects and on the main items in households’ budgets are available from 1977. This allows the economic conditions of Italian households over the past forty years to be analysed in depth against the backdrop of the macroeconomic and demographic changes that have shaped the country.

There have been far-reaching changes along the way: Italians’ life expectancy has increased, as have their level of education, female labour force participation rates, the number of foreigners in Italy and overall well-being. Inequalities, which had declined in the previous decades, increased again in the early 1990s and subsequently flattened out.

The economic slowdown that began in Italy in the 1990s has impacted on household income, especially that of payroll workers already in the labour market and, more markedly, of those who entered it in subsequent years. The worst affected are the young, who have put off leaving the family home and whose earning prospects over their entire life cycle are lower than those of previous generations. Households’ limited need to save owing to easier access to credit has, however, softened the repercussions on consumption.

The smaller build-up of own wealth has magnified the importance of intergenerational transfers, strengthening the role of the family of origin in defining an individual’s socio-economic status while entrenching inequalities that bear no relation to a person’s intrinsic merit or ability.

Demographics, and Italian households’ income and wealth

Italian society has changed profoundly over the last forty years. The number of people aged 65 and over is now equal to one third of those aged 20-64, about double the figure for the 1970s; life expectancy at 65 has risen from 13 to 19 years for men and from 17 to 22 years for women.

The gradual ageing of the population, common to all advanced countries, has gone hand in hand with a considerable increase in average education levels in Italy, which has partly closed the gap with the other advanced countries (see Annual Report, 2013, Chapter 11, ‘Education and training in the productive economy’). The

1 The Bank of Italy recently organized a scientific conference to mark the fiftieth anniversary of the survey. See the conference proceedings on the website: ‘The Bank of Italy’s analysis of household finances. Fifty years of the Survey on household income and wealth and the Financial accounts’, Banca d’Italia, Rome, 3-4 December 2015.
number of people at least 30 years old with a high school diploma or a degree has increased fivefold to almost 50 per cent; this figure rose to 70 per cent for 30 to 40 year olds, with a 10-point difference in favour of women.

Female labour force participation has risen sharply, though it remains low by international standards (see Annual Report, 2011, Chapter 11, ‘The role of women in the Italian economy’). This is due to cultural factors, higher levels of education, greater scope for combining family and working life made possible by new kinds of contracts (e.g. part-time work) and the expansion in the supply of personal care services also thanks to the contribution of the foreign population in Italy (see Annual Report, 2008, Chapter 11, ‘Immigration’). Foreigners accounted for over 8 per cent of Italy’s resident population in 2015, a tenfold increase compared with the mid-1990s.

Though available human resources have increased, Italy’s capacity to use them efficiently has gradually ceased to expand. The Italian economy has struggled to adapt to the changes wrought by globalization and the technological revolution. Total factor productivity, which approximates the overall efficiency of the productive system, has slowed from average annual growth of 1.4 per cent between 1974 and 1993 to 0.3 per cent in the following twenty years.

The main components of households’ disposable income (employment and self-employment income, pensions and property) have been affected by these macroeconomic and demographic trends in different ways.

Average annual per capita employment income (net of taxes and social security contributions), which rose almost without interruption until 1989, contracted sharply during the early 1990s recession; it had grown by barely 10 per cent in 2006 compared with 1977. Since the mid-1990s, the modest growth in per capita employment income and the marked increase in the number of wage-earners have both reflected the rise in less stable forms of employment, whose introduction was facilitated by regulatory changes to the labour market (Figure 15.1.a). By contrast, the average annual per capita income from self-employment, which is generally higher, rose by about 40 per cent in the same period (1977-2006; Figure 15.1.b).

The unfolding of the global economic crisis, which began in 2008 and continued in Europe with the sovereign debt crisis, brought 2014 income levels back to those recorded at the end of the 1970s for both employment categories; the parallel contraction in employment compounded the consequences for households, especially for those comprising employees.

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The reform of the pension system that started in the early 1990s, aimed at ensuring its long-term sustainability, has gradually prolonged the labour market participation of older workers and has interrupted the spike in the share of pensioners in the population recorded in the previous twenty years (Figure 15.1.c). Households have, however, continued to benefit from the growth in average per capita pension incomes, which have doubled over the forty years in question: in 2014 average annual pension income (net of taxes) came to 80 per cent of employment income.

The positive trend in property income, attributable to the increase in house prices, has considerably boosted households’ well-being through earned and imputed rental incomes (Figure 15.1.d).

According to the SHIW, the cumulative result of these trends was a 75 per cent increase in real terms of per capita net disposable annual income between 1977 and 2006. However, the two recessions that have buffeted the Italian economy since 2008 and the still modest recovery rates have wiped out roughly one quarter of this increase (Figure 15.2.a); between 1977 and 2014 per capita income grew by 54 per cent. The main aggregates of Italy’s National Accounts by institutional sector, compiled by Istat,
show that gross disposable income in the household sector, in per capita terms and at constant prices, followed a similar qualitative trend, growing by over 50 per cent between 1977 and 2006 and losing about one quarter of this increase during the subsequent crisis.\(^5\) Average real equivalent income, a conventional measure of individual well-being inferred from the SHIW taking into account the economies of scale from households' size and composition, expanded by 58 per cent until 2006, then contracted by 14 per cent until 2014, and rose by 36 per cent over the forty-year period as a whole.\(^6\)

Before the 1992-93 recession, 65 per cent of Italians lived in households in which at least two-thirds of income came from employment; in 1995 this share had fallen to just one half. With the recovery in employment this figure increased again, albeit modestly, reaching 55 per cent in 2008, then falling back as a result of the double-dip recession in Italy. By contrast, the number of persons in households in which pension incomes came to two-thirds of the total rose constantly, from 12 per cent in 1977 to 18 per cent in the second half of the 1990s; following a period of stagnation, it expanded again during the global financial crisis, helping to attenuate its effects on households' living standards (Figure 15.2.b).\(^7\)

These developments have led to profound changes in the relative positions of specific population groups. Since the mid-1990s the gap between the equivalent

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\(^5\) In line with what is observed for sample surveys on household budgets conducted in Italy and abroad, the aggregates estimated from SHIW data are not directly comparable with the corresponding items in the National Accounts, owing to the many differences in definitions and methodologies. See Methodological Note, in Supplements to the Statistical Bulletin, 5, 2014.

\(^6\) Unless otherwise specified, the definition of income adopted in this chapter excludes financial incomes, which have only been estimated since 1987 when financial assets were first measured. From 1987 to 2014, average equivalent income grew, at constant prices, by about 7 per cent including interest and dividends, by 8 per cent excluding them. Equivalent values are calculated using the OECD-modified equivalence scale.

income of family members with a self-employed head of household and that of family members with an employee as head of household has widened appreciably; it was only partially filled during the most recent recessionary phase, though the average well-being of the second group was lower than that of households headed by pensioners. On average, the deterioration in living conditions during these years of crisis has been particularly intense for younger households; it has also been more marked in the Centre and North than in the South, almost closing the widening gap that had formed between the two areas in the period 1995-2006 (Figure 15.3).

Figure 15.3

Average equivalent income by head of household’s characteristics (1)

(Thousands of euros at 2014 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee</th>
<th>Pensioner</th>
<th>Self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>8</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>1980</td>
<td>10</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>1985</td>
<td>12</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>1990</td>
<td>14</td>
<td>12</td>
<td>16</td>
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<tr>
<td>1995</td>
<td>16</td>
<td>14</td>
<td>18</td>
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<tr>
<td>2000</td>
<td>18</td>
<td>16</td>
<td>20</td>
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<tr>
<td>2005</td>
<td>20</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>2010</td>
<td>22</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>2015</td>
<td>24</td>
<td>22</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Based on data from the Survey on Household Income and Wealth, historical database (version 9.0).
(1) Income net of income from financial assets; equivalent income calculated using the modified OECD scale.

Despite modest overall growth in income, household wealth grew steadily over the entire period of the survey (see the box, ‘The real and financial wealth of Italian households according to the aggregate statistics’). The SHIW has been recording the value of real assets (property, businesses and valuables) and the debt overhang from the purchase or renovation of real estate since 1977, that of financial assets since 1987 and that of other financial liabilities since 1991.

THE REAL AND FINANCIAL WEALTH OF ITALIAN HOUSEHOLDS ACCORDING TO THE AGGREGATE STATISTICS

According to the official statistics, in 2014 households’ net wealth was about six times gross domestic product (GDP), barely higher than the figure prevailing in the years immediately preceding the global financial crisis; over two thirds of this amount comprised real assets.1 Italian household wealth is high by international standards, both in per capita terms and in proportion to GDP.2

1 Net household wealth is given by the sum of real and financial assets net of financial liabilities. The real items have been estimated by Istat since 2005 while financial items have been estimated by the Bank of Italy since 1995. See Household wealth in Italy 2014, in Supplements to the Statistical Bulletin, 69, 2015.
Data for the entire post-unification period show that in the last ten years the ratio of net household assets to GDP has returned to levels comparable to those recorded at the beginning of the last century, after it had hit a record low in the mid-1960s, when it fell by half. Between the 1950s and the mid-1960s the decline in the ratio mirrored the exceptional growth in GDP (see the figure); the rise in wealth, which expanded at a rate equal to one fifth of GDP growth, depended in equal measure on the rise in real estate components, as unit prices held basically stable, and on the increase in net financial wealth. In the following 15 years these trends were inverted: households’ net wealth galloped ahead of GDP and, net of the change in consumer prices, had more than tripled by the beginning of the 1980s. Around four fifths of this growth was supported by that of real assets, in part driven by highly favourable property price cycles. Almost two thirds of the expansion in wealth during the 1980s and 1990s is instead attributable to the growth in net financial wealth, which tripled notwithstanding the increase in household indebtedness. The accumulation of real wealth was almost exclusively due to the expansion of home ownership, also facilitated by easier access to credit; despite the considerable price fluctuations throughout the entire period, at the end of the 1990s unit prices had not deviated greatly from those of twenty years previously. Property prices once again sustained the growth in net wealth from the turn of the century until the onset of the global financial crisis, when they stalled; this was accompanied by an increase in net financial wealth which had stagnated at the beginning of the decade as a result of the downward adjustment linked to the...
bursting of the technological bubble. During the global financial crisis and the European sovereign debt crisis, net wealth shrank, albeit to a lesser degree than GDP, as a result of the decline in the value of net financial assets, which had already begun in 2007, and in that of real assets since 2011.

On the whole, since the mid-1960s when the ratio of household wealth to GDP turned upward again in almost all the advanced countries, the growth in Italian household wealth has stemmed above all from that in real estate assets, largely due to the increase in property ownership.

Real assets account for a significant share of most households’ gross wealth; financial assets, mainly bank deposits, account for the bulk of total assets of less affluent households only.

Between 1977 and 2010 the average value of households’ real assets, net of the growth of the private consumption deflator, almost tripled, while their median value quadrupled. The growth in the value of real estate assets reflected both the increase in prices, which almost doubled, and that of property ownership. The latter was boosted by the growth and ageing of the population and benefited from easier access to credit.8

The home-ownership rate rose from just over 50 per cent in 1977 to 72 per cent in 2010, recording especially fast growth until 2000; the overall increase was greater for older households, from 60 to 80 per cent (see ‘Italian Household Budgets in 2014’, in Supplements to the Statistical Bulletin, 64, 2015).

Again, between 1977 and 2010, the number of households that took out loans to purchase or renovate real estate rose from 4 to 11 per cent; since the end of the 1990s this has been accompanied by an increase in the ratio of outstanding debt to real estate assets: while the latter has more or less doubled, total indebtedness has more than tripled.

Between 1991 – when the survey first measured all liabilities – and 2014, the share of indebted households fluctuated at around one quarter, which is low by international standards.9 Slightly more than half were indebted for reasons other than the purchase and renovation of real estate, while only about one third of those with these types of debt had other debts too.

**The distribution of income and wealth**

The Gini index of equivalent income, a measure of inequality that synthesizes how distribution differs from an egalitarian one on a scale of 0 to 100, has been on a downward, if bumpy, path since the first half of the 1980s, continuing the trend under

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way since Italian unification (Figure 15.4).\textsuperscript{10} This trend was interrupted in the second half of the 1980s and then inverted during the recession that hit Italy in 1992-93 when the European exchange rate mechanism was thrown into turmoil: during this period inequality grew rapidly while per capita disposable income declined only slightly.

By contrast, since the outbreak of the global financial crisis in 2008 and the subsequent recession caused by the sovereign debt crisis, and notwithstanding a broader contraction in income, there have been no discernible changes in inequality. Overall, it has stabilized at figures close to those recorded at the end of the 1970s and remains relatively high by international standards; however, it has risen less than in many other advanced countries since the 1980s.\textsuperscript{11}

The two main contractions in the Italian economy since World War II, coinciding with the early 1990s and the double-dip of the global financial crisis and the European sovereign debt crisis, have affected inequality in varying ways, in part because of the different composition of the population at the onset of each: income distribution polarized during the first, while it shifted downwards overall during the second.

In the early 1990s recession, the proportion of the population belonging to the middle class shrank by six percentage points and this class’s share of equivalent income, including financial returns, fell by five points (Figure 15.5).\textsuperscript{12} In the most recent recession the middle class lost less ground and increased its share of income. The growth in the number of low-wage earners was much greater in the first recession (from 16 to 21 per cent), when the proportion of people in this category was nonetheless lower. At that

\hspace{2cm}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Figure15.4.png}
\caption{Gini index of equivalent income (1)}
\end{figure}

\begin{itemize}
\item[(1)] Equivalent income is calculated using the modified OECD scale.
\end{itemize}

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|l|l|l|l|l|l|}
\hline
\hline
\textbf{Index} & 27 & 28 & 29 & 30 & 31 & 32 & 33 & 34 & 35 \\
\hline
\end{tabular}
\caption{Gini index of equivalent income (1)}
\end{table}

\begin{itemize}
\item[(1)] Including income from financial assets
\item Excluding income from financial assets
\end{itemize}

Source: Based on data from the Survey on Household Income and Wealth, historical database (version 9.0).


\textsuperscript{11} See Luxembourg Income Study (LIS), Inequality and Poverty Key Figures.

\textsuperscript{12} According to the definition used here, the middle class includes people with equivalent incomes of between 60 per cent of the median income (the threshold usually used to identify low-income groups), and three times that figure. See A.B. Atkinson and A. Brandolini, ‘On the identification of the middle class’, in J.C. Gornick and M. Jäntti (eds.), Income Inequality, Economic Disparities and Middle Class in Affluent Countries, Stanford (CA), Stanford University Press, 2013, pp. 77-100.
time the share of income for the richest rose (from 6 to 10 per cent), the opposite of what happened during the recent recession.

This is probably due to the fact that at the end of the 1980s four-fifths of the middle class belonged to households headed by employed or self-employed workers, who are more vulnerable to cyclical fluctuations; halfway through the 2000s this figure fell to below 70 per cent, but rose by 10 points (to 30 per cent) for households with pensioners, who are more protected from the effects of the economic cycle.

Between the end of the 1980s and 2014, the increase in the share of low-wage earners went hand in hand with a substantial change in its composition, more than halving for pensioner households (from 40 to 15 per cent), rising for households headed by employees (from 14 to 20 per cent) and, though less so, for self-employed households (from 12 to 15 per cent).

The limitations of social buffers against poverty are confirmed by the fact that almost all households whose head was unemployed for most of the year, nearly 4 per cent of the population in 2014, were in the low-income bracket, more than double the figure recorded at the peak of the early 1990s recession.13

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Figure 15.5

| Equivalent income and population share by class of equivalent income (1) (per cent) |
|---|---|---|
| (a) Low income | (b) Middle class | (c) The rich |
| Income share | Population share |
| 2 | 4 | 6 | 8 | 22 | 20 | 18 | 16 | 14 | 12 | 10 | 8 | 6 | 4 | 2 |
| 4 | 6 | 8 | 10 | 12 | 14 | 16 | 18 | 20 | 22 | 24 | 26 | 28 | 30 | 32 | 34 |
| 8 | 10 | 12 | 14 | 16 | 18 | 20 | 22 | 24 | 26 | 28 | 30 | 32 | 34 | 36 | 38 |
| 14 | 16 | 18 | 20 | 22 | 24 | 26 | 28 | 30 | 32 | 34 | 36 | 38 | 40 | 42 | 44 |
| 20 | 22 | 24 | 26 | 28 | 30 | 32 | 34 | 36 | 38 | 40 | 42 | 44 | 46 | 48 | 50 |
| 80 | 82 | 84 | 86 | 88 | 90 | 92 | 94 | 96 | 98 | 100 | 102 | 104 | 106 | 108 | 110 |

Source: Based on data from the Survey on Household Income and Wealth, historical database (version 9.0).

(1) Income including income from financial assets; equivalent income calculated using the modified OECD scale. ‘Low income’: equivalent income less than 60 per cent of the median income; ‘middle class’: equivalent income of between 60 per cent and three times the median equivalent income; ‘the rich’: equivalent income higher than three times the median income.

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13 Preliminary testimony on the enabling act containing measures to combat poverty and reorganize the social security benefits and social services systems (in connection with the 2016 Stability Law), testimony of Paolo Sestito, Head of the Bank of Italy’s Structural Economic Analysis Directorate, Chamber of Deputies, Rome, 4 April 2016.
Economic hardship is greater for members of younger households. Among those with household heads aged 30 or under, more than one in three are in a low-income class (against just one in ten at the end of the 1980s); those with heads aged 31 to 50 found themselves in similar though less difficult circumstances. The share of low-income households fell slightly in the South, to 33 per cent from almost 40 per cent in 1995, though it remains three times higher than in the Centre and North.

Households, especially those in difficulty, can draw on their assets to soften the blow of income shocks on their living conditions. In 2014 low-income households nonetheless held less than 4 per cent of overall net wealth, three points less than in the two-year period 1993-95. Almost half of these households would not be able to leave the low-income class for a whole year – not even if they liquidated all their assets; during the 1990s recession this figure was considerably lower, not reaching 30 per cent. These particularly vulnerable households are more common in the South, among smaller households and those headed by employees. The wealth of other low-income households is on average about six times that of vulnerable households, a similar level to that of the mid-1990s.

**Generation gaps**

The weakening of the Italian economy since the 1990s has disproportionately affected young people: opportunities for entering the job market have increased, but working careers have become more discontinuous and starting salaries have decreased compared with previous generations, despite the higher levels of education.14

According to INPS data, entry-level weekly wages fell by about one fifth in real terms between the end of the 1980s and the beginning of the last decade, but were not offset by more rapid wage growth.15 The double-dip recession between 2008 and 2013 weighed most heavily on those trying to enter the labour market, cancelling most of the increase in job opportunities for young people recorded in previous years.

The younger generations have reacted to this reduced earning capacity by putting off leaving the family home. Between the end of the 1980s and the beginning of the 2000s the proportion of young people aged 25-34 still living at home doubled, from just over 25 per cent to roughly 50 per cent; the slight decrease up to 2008 was interrupted by the global financial crisis and in 2014 the share neared 50 per cent again (30 per cent for those aged 30-34). These young people benefited from their parents’ better economic conditions: their equivalent income was higher on average than that of their peers who had established a new household.

It is estimated that permanent income net of pension transfers, or rather how much people can expect to earn in their lifetime, will no longer increase and compared

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with previous generations may even fall for the younger generations that have established a household. The intergenerational gap in well-being may be even wider if one considers that pension incomes for younger generations, being determined on the basis of a defined contribution method, will depend more than in the past on their often erratic career progression.

While permanent income is lower, these generations have nonetheless benefited from the development of the Italian credit market and the improvement in borrowing conditions between the mid-1990s and the onset of the global financial crisis, including among population segments that traditionally found it more difficult to access credit; the resulting lesser need to accumulate wealth has made it possible to curb the fall in consumption by squeezing savings.

The younger generations can also expect to inherit more wealth owing to the lower average number of children per family. In 2014 about one third of households said they had received an inheritance; the inherited wealth of these households, which amounts to 60 per cent on average of their net assets, is more than double that of households that have received no transfers or gifts. At the beginning of the 1990s, when only about one fifth of households had received an inheritance, the assets of beneficiary households were only about 70 per cent higher than those of households with no inheritance or gifts.

The net wealth of the richest households depends less on intergenerational transfers than less well-off households, thanks to their greater ability to build up resources of their own accord. Yet overall income, the main reason for this independence, is more closely linked to that of the family of origin than in other advanced countries, indicating a lower degree of social mobility; it also reflects educational and occupational persistence between generations. There is evidence that the role of the family of origin in determining young people’s income has become increasingly important.

The increased value of inherited wealth and the growing role of the family of origin in explaining the uneven distribution of income among young people are entrenching inequalities in well-being for future generations.

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