

# **Long term trends in the world of work: What effects on inequalities and middle-income categories?**

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Italy. Youth prospects in the world of work: The risk of  
an intergenerational gap?

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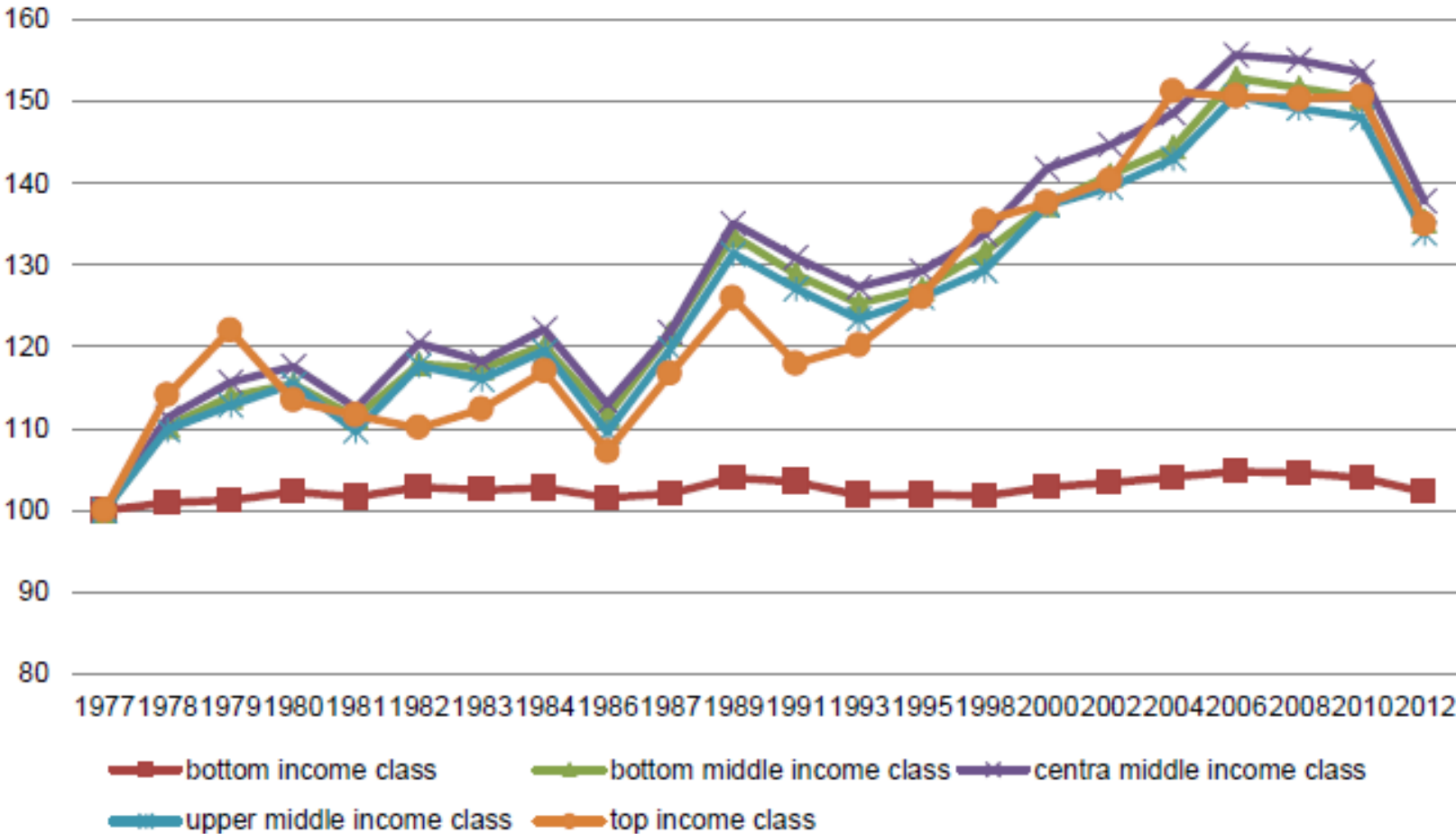
# Main findings

- Generalised decline (or stagnation) of incomes in absolute (real) terms.
- Relative stability of the MC in terms of income and wealth but probable churning and reshuffling within the various sub-classes, with the LMC faring worse (Sliding down vs. polarization)
- The worsening position of the MC is more evident in terms of income security and long-term occupational stability than in terms of wealth. MCs' discontent is connected more to the declining opportunities of their children than to their parents' relative income/wealth.
- With the opportunities for their offspring becoming ever less favourable, each segment of the MCs has operated a defensive closure, which led to a sharp decrease in social mobility, even between its various segments within our broad definition of the MC.

# Definition and databse

- Middle-income groups are internally highly heterogeneous. Their size depends on how they are defined, whether by income, wealth, occupation, education, environment, social network, manners or values.
- We use the historical archive of the Bank of Italy's Survey of Household Income and Wealth (SHIW), which gathers homogeneous and harmonized information on the income, wealth, savings and consumption of Italian households for the period 1977–2012.
- We adopt the commonly agreed definition of the middle-income class as formed by those families with equivalent disposable income between 60 per cent and 200 per cent of median income.

Figure 3: OECD modified equivalent total disposable income (mean) by income class, Italy, 1977–2012



# Inequality has increased, driven by what happened at the bottom of the distribution

Figure 4 Gini index, Italy, 1977–2012

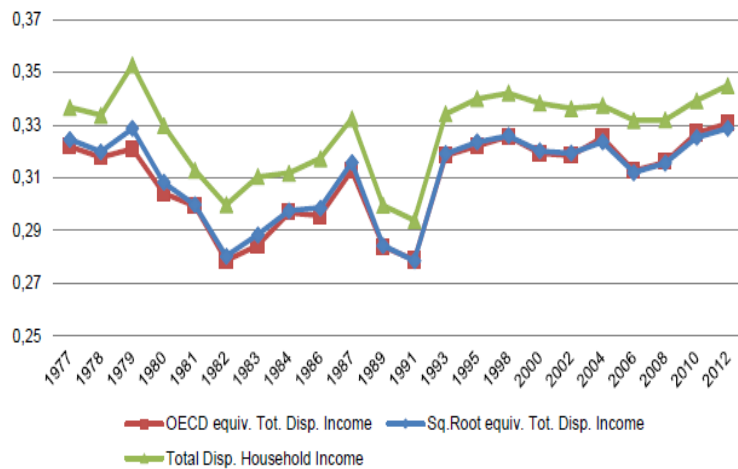
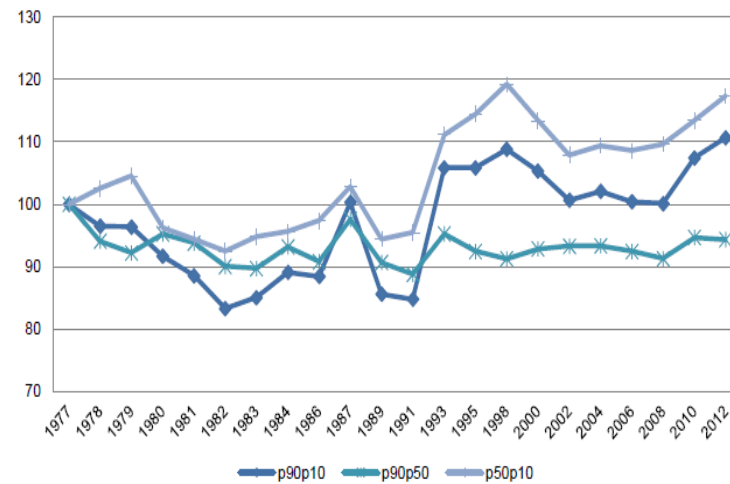
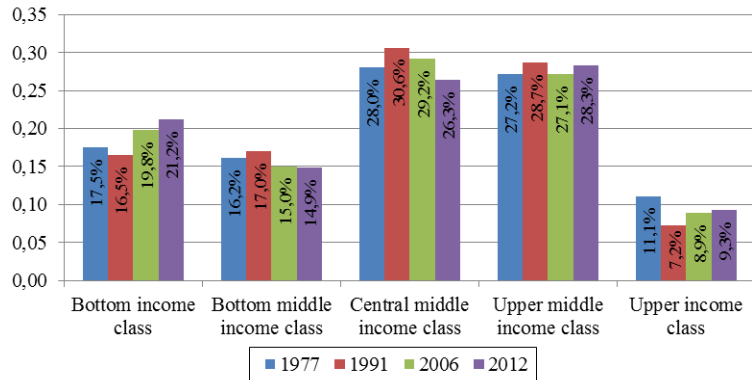


Figure 5: Selected income ratios, Italy

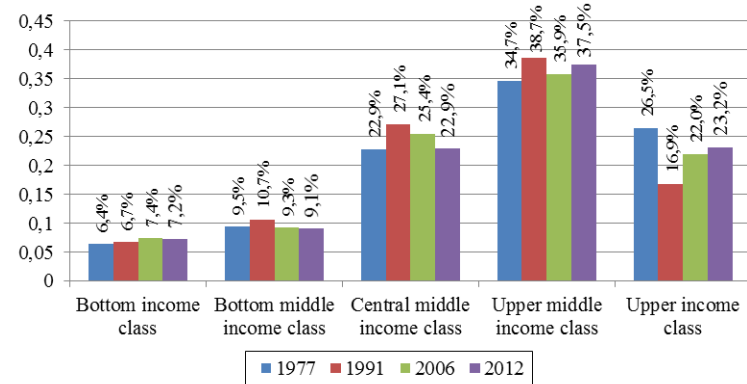


# The 1991 divide. Shrinking or churning?

## Population share by income class



## Income share by income class



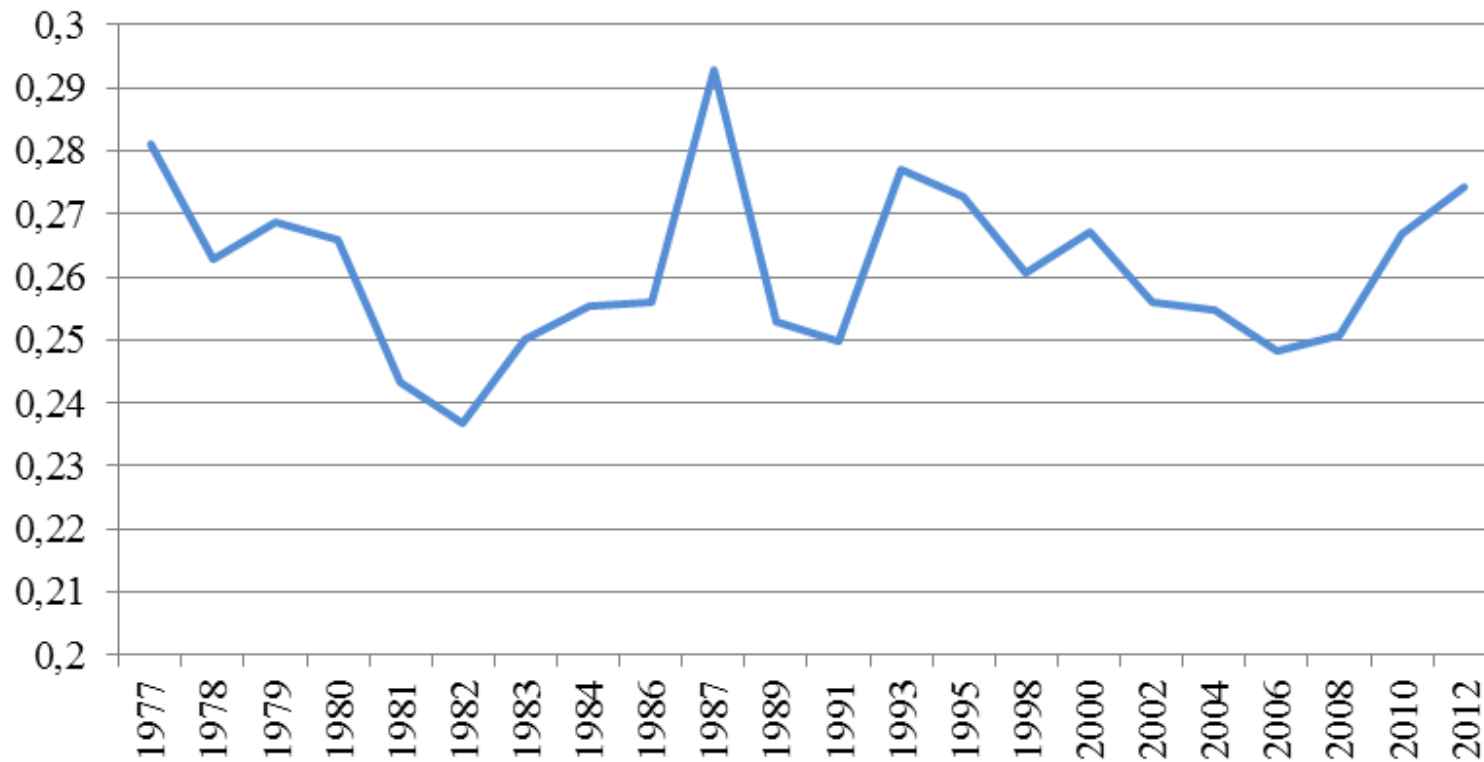
# Polarization?

- The 'shrinkage' in the middle class could be due to an increase in both the lower and the upper part of the distribution, leading to a spreading away from the median and consequently to a rise in polarization.
- Atkinson and Brandolini (2011) do not find signs of income polarization in Italy up to 2004.
- Petrarca and Ricciuti (2015) compare polarization in six European countries (the United Kingdom, Germany, Poland, Italy, France and Spain), and find that polarization increased in all the countries except Italy (data available until 2010), with the effect of the middle class getting poorer exceeding that of the middle class getting richer.
- We compare the income density functions for 1991, 2006 and 2012. Our findings suggest that the central part of the distribution, after the economic crisis, moved toward lower rather than higher income ranges, while the increased distance between the two modes could be a sign of polarization.

- These results are confirmed by the Foster–Wolfson polarization index, a synthetic index of bipolarization which is consistent with the polarization curves and similar to the Gini index: we find a similar degree of polarization between 1991 and 2006 (from 0.25 to 0.248) (although it shows an increase in-between) and an increase thereafter (in 2012 the index reaches the value of 0.274).



## *Foster and Wolfson bipolarization index, Italy, 1977–2012*



- In conclusion, it seems that, after the start of the economic crisis, we can detect the first signs of polarization and thus of a declining middle class. If the economic and fiscal crisis persists, the reshuffling is likely to continue, with households at the top of the distribution upgrading their position and households at the bottom losing ground.
- A range of not mutually exclusive causes have been mentioned: technical change leading to the polarization of skills and jobs, the effects of the fiscal crisis on public employment (wage freeze and precarious jobs) and welfare, the more severe effects of the economic crisis on the lower-middle class, institutional and economic factors favouring an increase in top-labour income, and labour reforms penalizing young cohorts independent of their class of origin.

# Labour reforms: intergenerational inequality

Before the crisis:

flexibilisation at the margin and increase in labour market dualisation and segmentation

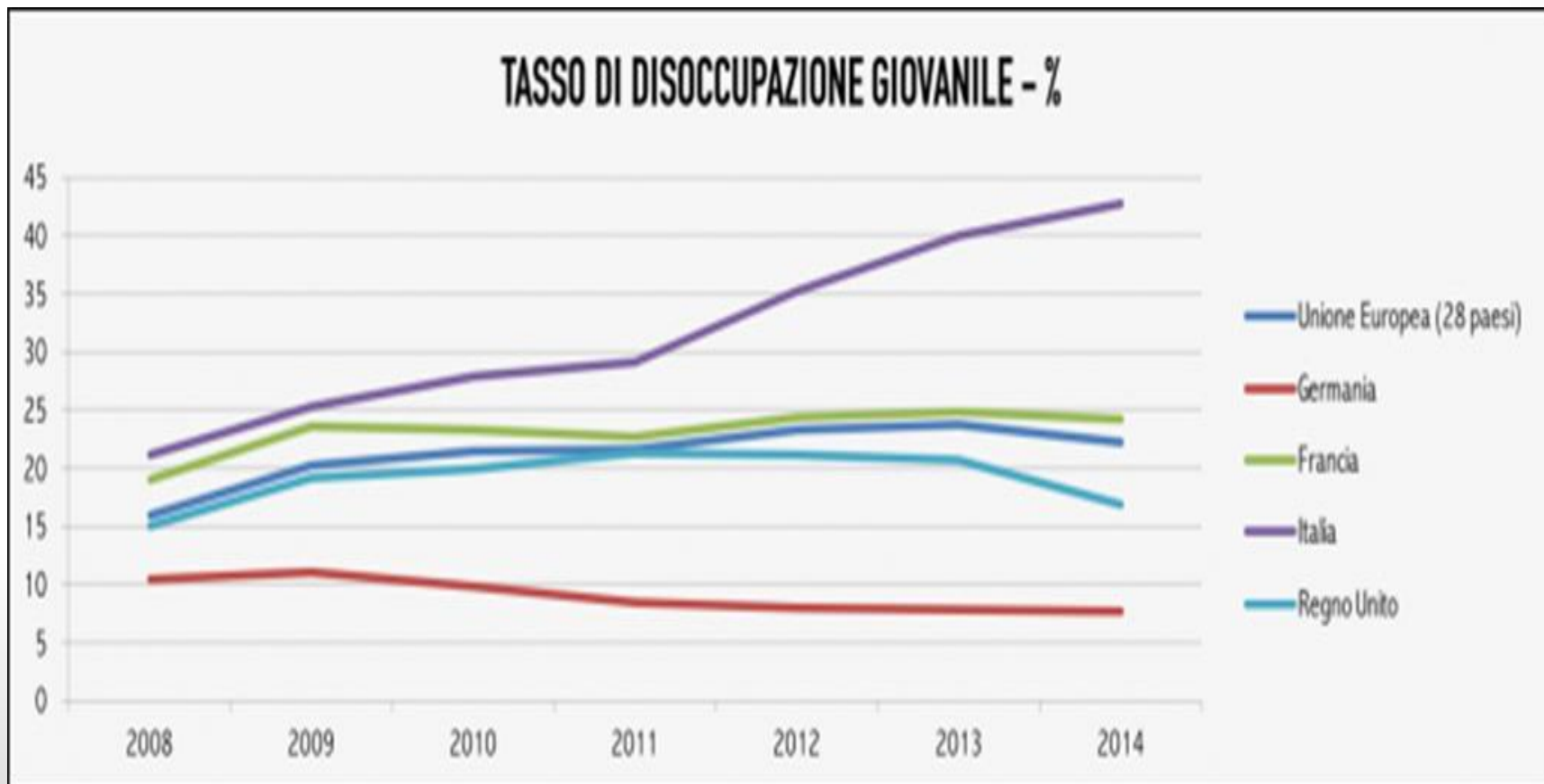
Since the crisis:

- Liberalization of fixed-terms contracts (Fornero's Law and Renzi's Jobs Act)
- Abolition of art. 18 of Workers' Charter of Rights
- Introduction of a progressive right to tenure (3 years) +
- heavy subsidization of firms hiring unemployed people on an open-ended contract (problem of additionality of jobs)

# Three problems concerning youth:

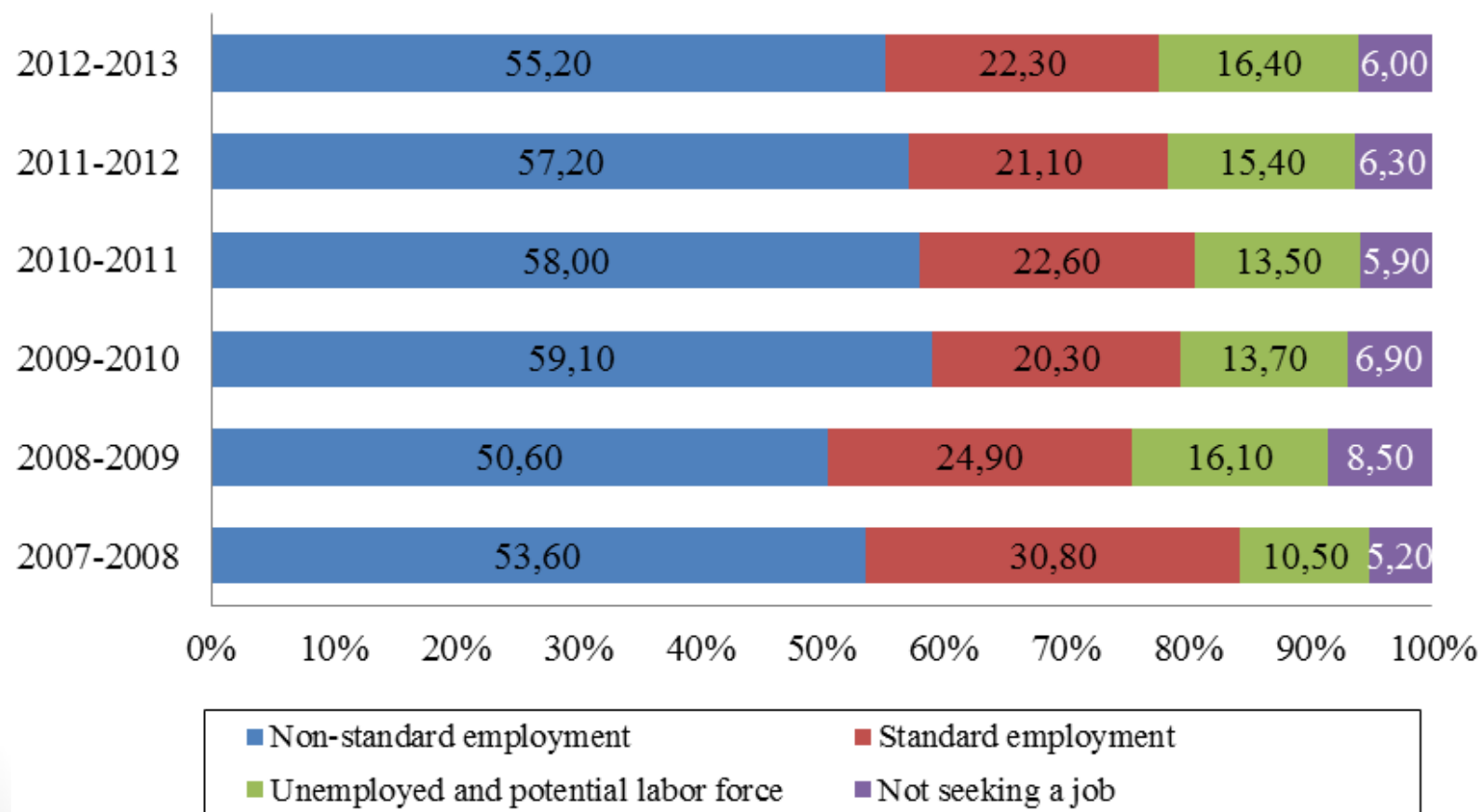
## 1. Unemployed

Unemployment rate of 15-24 years-old: from 20% in 2007 to 43% in 2015.



## 2. Precarious

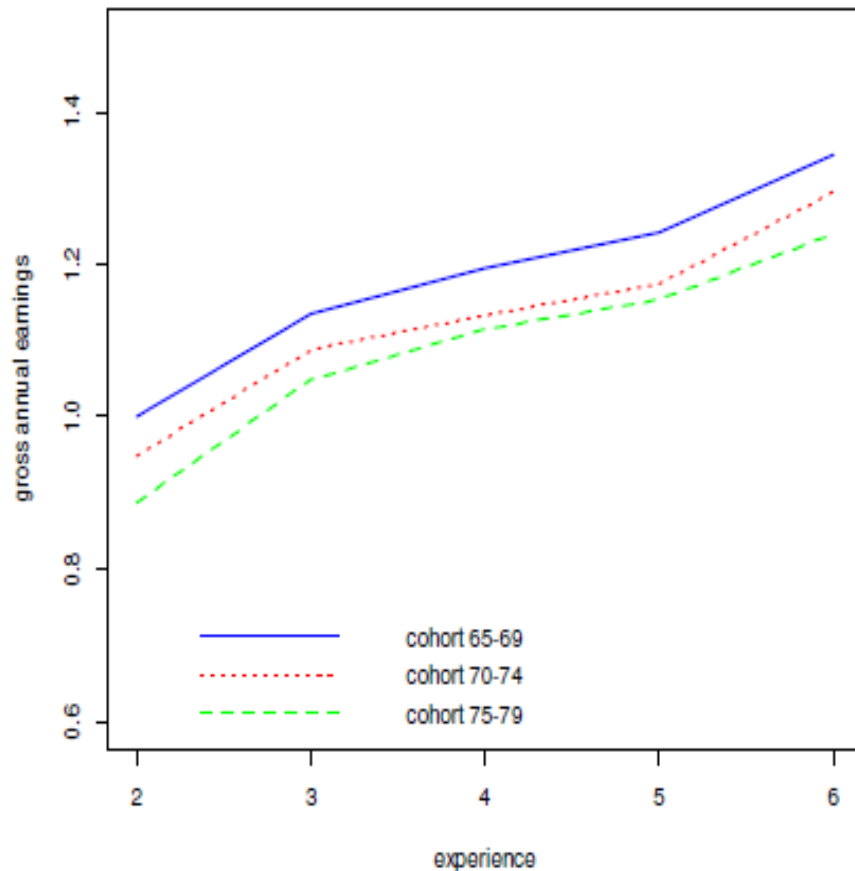
Flows out of non-standard contracts for young people 15-34 years of age, Italy, first quarter 2007–first quarter 2013



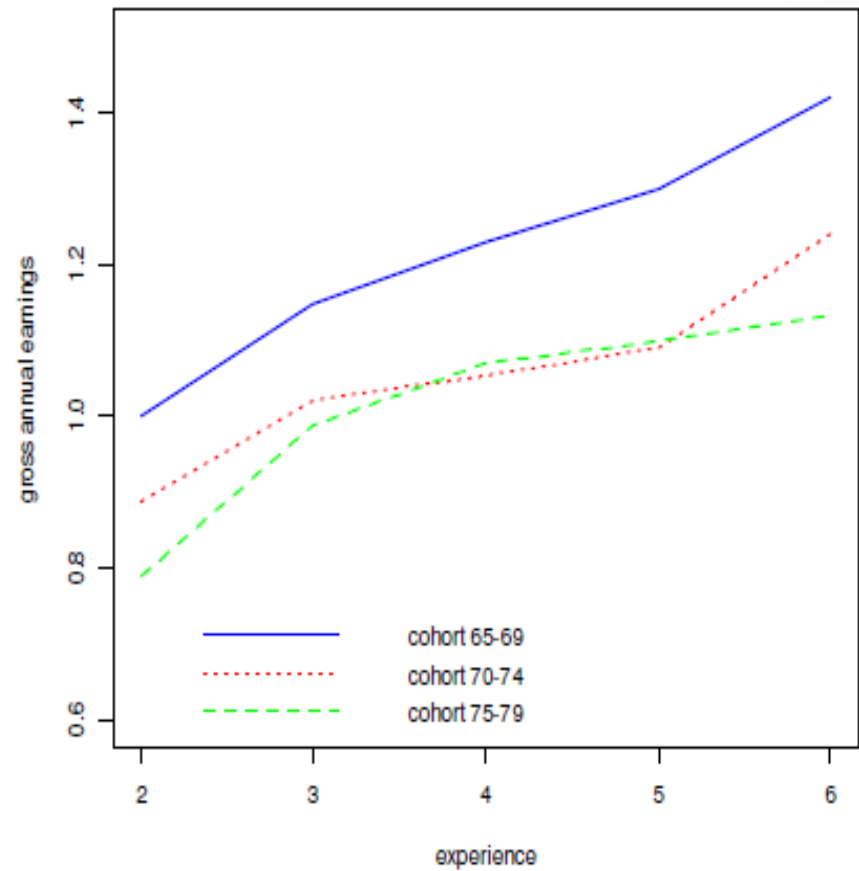
### 3. Poorer:

OLS Estimates of gross annual earnings by birth cohort (Naticchioni et al, 2014)

all



Tertiary educated



# «Social generations»

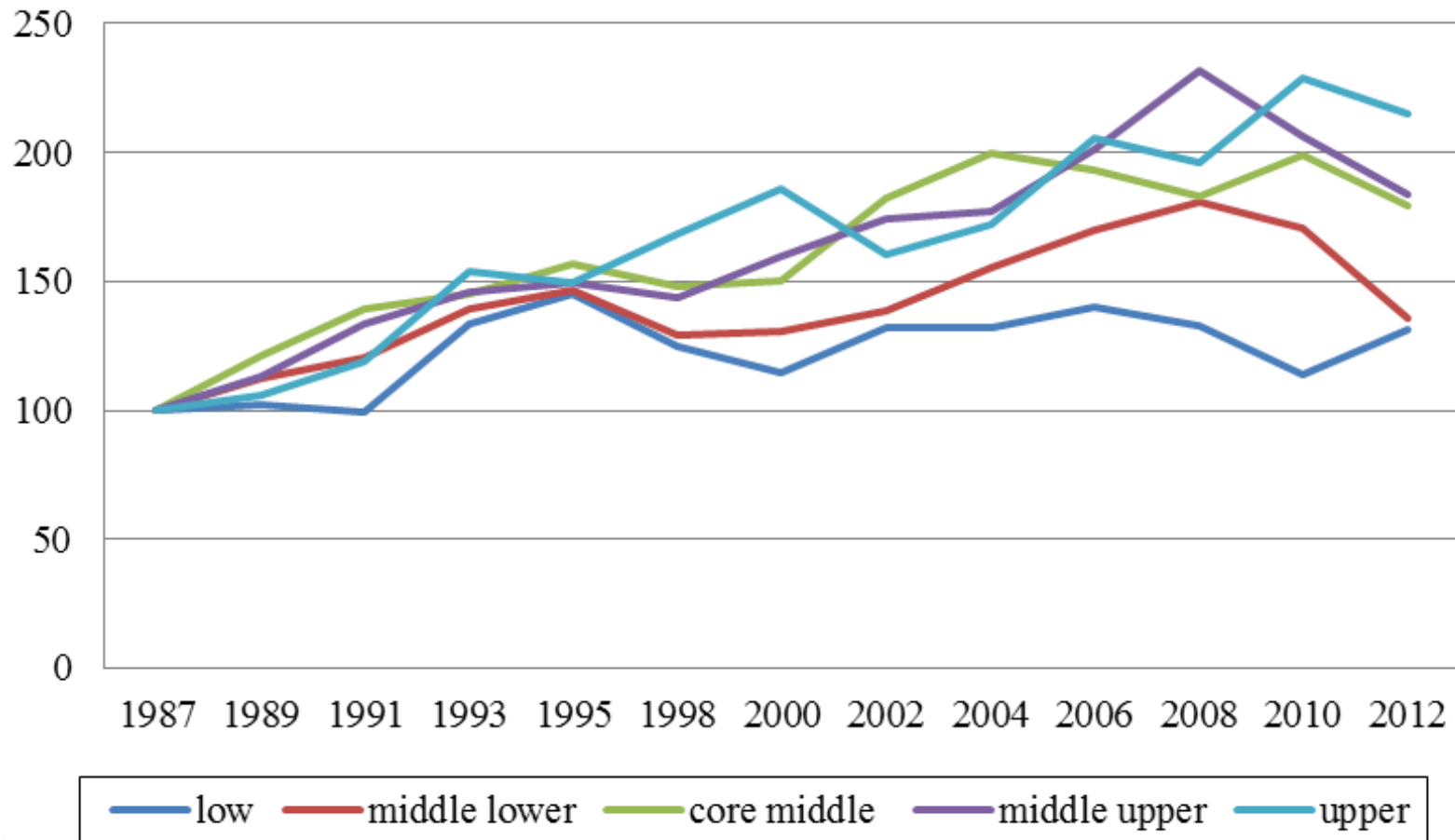
- Berloff et al. (2015) compare the transition between the occupational status of two different educational cohorts: those individuals who finished education between 1971 and 1985, and those who finished after 1992. The results show that for the second cohort (the cohort hit by the effects of the labour market reforms enacted since the end of the 1990s) there is a significant increase in the probability of being trapped in a non-standard, and thus insecure, form of employment.
- Chauvel (2013): status societies. Countries differ in their capacity for inclusion (if only in terms of market participation).
- Conservative and Mediterranean welfare regimes, + Japan, provide an institutional context that favours the emergence of deeply contrasted cohorts with diverging social paths and life chances.
- More resilient societies, where second chances exist (in terms of education or work opportunities), have less cohort-based inequality: Nordic countries and English-speaking 'liberal' countries, where new social or market opportunities over the life course can lessen, at least partially, difficulties in early adulthood

# Implications

- Widening difference between the average income of young and old people (LM and WS effects).
- Increasing difference between different cohorts
- MC's offspring do not appear to have fared better (tertiary educated)
  
- Consequences
- Increasing reliance on parents' support, delayed family formation and falling fertility → inequality feeds on itself



# Total net wealth by income groups, Italy, 1987-2012



# Families' responses

Family background can influence employment and earnings (besides affecting “unobservable abilities”)

- i) through the probability of higher educational attainment;  
educational attainment increases from the bottom to the upper class, moreover.  
Increasing differentiation in education (private university, study abroad, post-doc stages)
- ii) through the greater probability of getting a good job  
networks of social contacts;  
a “closed shop” effect (Bison 2013): children’s probability to have a job in the same sub-class of origin when first entering the labour market. Supported by licensing of occupations.

Contradiction between the sweeping process of deregulation of the labour market and the resistance that has been opposed to any attempt at liberalization of the professions (notary, accountants, pharmacist, taxi drivers).

# Intergenerational mobility among occupational groups, Italy 2011 (EU-SILC)

	Offspring occupation					
Parental occupation	Managers	Professionals	Associate professionals, technicians, clerks	Service and sales workers	Blue-collar workers	Parents' distribution
<b>Managers</b>	<b>9,44</b>	22,84	31,78	14,74	21,2	7,24
<b>Professionals</b>	3,82	<b>40,04</b>	32,02	9,41	14,71	7,61
<b>Associate professionals technicians &amp; clerks</b>	2,98	18,03	<b>45,01</b>	12,4	21,59	17,55
<b>Service workers</b>	2,97	10,78	28,63	<b>30,13</b>	27,49	9,9
<b>Blue-collar workers</b>	2,27	7,43	23,3	17	<b>50</b>	57,71
<b>Offspring's distribution</b>	3,1	13,22	28,92	16,75	38,02	100

# Intergenerational mobility

- A high level of intergenerational persistence of occupation.
- All the occupational groups (but the managers): a higher proportion remains in the same occupational group of their parents.
- The persistence is particularly high for the blue collars, who have 50% of probability of staying in the same occupation of their parents.
- Occupation persistence is also high among professional and associate professionals, possibly linked to the entry barriers that still limit the access to certain professions.

# Summary findings: class vs inter-generational conflict

- Given two decades of slow growth and the deepest recession since the war, de-regulation of the LM has not increased the number and quality of jobs but has induced a downward equalization across classes
- MC children: reduced employment and security
- Limited role of education: upskilling is no solution if demand for skills does not increase

However

- Retrenchment (glass ceilings and parachute effects) becomes more evident when the crisis reduces the opportunities and the availability of good jobs.
- Social mobility sharply decreasing.