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The impact of the crisis on generations: is Italy a special case?

In a recent paper[2], the International Monetary Fund (IMF) analyses the effects of 2008 economic crisis across generations in the European Union. On the basis of international comparisons – using descriptive statistics from Eurostat and econometric regressions on panel data – the paper shows that in the aggregate of EU28 countries young people suffered from the worst negative impact of the crisis; on the other hand, the position of the elderly improved in all countries.

In particular, between 2007 and 2015, almost everywhere the poverty rate of the elderly[3] (65+ years) decreased while their real disposable income[4] increased because it mostly includes pensions indexed to inflation. On the other hand, the other age groups were negatively affected by the crisis, albeit to different extent. The

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This Flash contains some of the comments presented by Prof. Alberto Zanardi at the VisitInps seminar held in Rome on February 1, 2018.

[2] Chen, T., Hallaert, J.J., Qu, H., Queyranne, M., Pitt, A., Rhee, A., Shabunina, A., Vandenbussche, J. and Yackovlev, I. (2018), https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/01/23/Inequality-and-Poverty-across-Generations-in-the-European-Union-45137. See also the comment by Christine Lagarde "A Dream Deferred: Inequality and Poverty Across Generations in Europe", https://blogs.imf.org/2018/01/24/a-dream-deferred-inequality-and-poverty-across-generations-in-europe/.

[3] IMF uses the persistent relative rate of poverty, which captures, for each age group, the proportion of individuals living in households whose available net incomes falls below 60 percent of the national median disposable incomes of households in the year when the survey takes place and in at least two out of the three preceding years. The household underlying the Eurostat data is "a group of people sharing expenses, [taking into account] the duration of stay for non-permanent members and the duration of absence for the absent members" (Regulation of the European Commission n 1983/2003 of 7 November 2003 implementing the Regulation of the European Parliament and of the European Council No. 1177/2003 concerning Community statistics on income and living conditions – Silc).

[4] IMF refers to the growth rate of household real equivalent net disposable incomes.

strongest negative impact was suffered by youngsters aged 18-24. Therefore, IMF final policy recommendations are mainly aimed at supporting youngsters: strengthening unemployment benefits, developing active labour market policies with specific attention to young workers, modernizing education and training programs, adopting an adequate degree of progressivity in the general taxation system to favour the rebalancing of disparities across generations.

However, Eurostat dataset used by IMF suffers from an underlying limitation: poverty rates and incomes are recorded on a household basis but are then attributed to each component of the household regardless his age and working status. Every component of the household, each one characterized by his own age, can therefore benefit from the equivalent incomes belonging to the entire household. As acknowledged also by Authors[5], this assumption is problematic. In fact, in multi-generational households, where parents and children live together, both incomes and poverty rates assigned to youngsters strongly depend on their parents' economic situation. Therefore, in countries where multi-generational households are common, living/housing difficulties and rates of poverty of the youngsters aged 18-24 years will be probably underestimated.

This statistical limitation contributes to some extent to distort IMF results and this bias becomes evident when the overall EU28 aggregate is compared with single countries with different prevailing household models and, in particular, with different incidence of multi-generational households. In some countries individuals aged 18-24 years (the bracket used in the paper to identify the youngsters[6]) are already autonomous from the household of origin, they have their own labour incomes and their own home; on the opposite, in other countries, young and young adults tend to live longer with their parents in the household of origin, sharing resources and housing with them. In the first case it is possible to refer economic and living conditions directly to the young individuals, while in the second case those conditions belong to their household of origin and are reasonably in most part shared by parents (although contribution to household budget by young and young adults remain of course possible).

Table 1 shows how living habits of the young aged 18-24 years differ across European countries. In 2007, the average age of leaving the household of origin varied between 22 years in Finland and 30.7 in Croatia, a span of almost 8 years. EU28 average and the Euro area average positioned at around 26.3. Italy was close to the upper limit with an exit-age of 29.8 years. Nine years later, in 2016, the observed range varies between 20.7 years in Sweden and 31.5 in Croatia, a span of about 10 years (2 more than in 2007). Italian 30.1 years are among the highest, about 4 years above the two European

[5] See page 39.
[6] The selection of age groups is limited by the availability of the statistics.

averages, approximately 1 year above Spain, 6.4 years above Germany, 6 years above the United Kingdom, 6.3 years above France.[7]

Figure 1 presents a comparison between EU28 aggregate and Italy based on Eurostat data. It clarifies to what extent habits of young people and prevailing models of household can alter the results of an exercise such as the one performed by the IMF. Age groups are on the x-axis. Light blue bars represent the 2007-2016 change[8] of the median value of equivalent net disposable incomes – expressed in purchasing power parity – of the households in which individuals identified by age groups are living. Blue bars represent the 2007-2016 change in relative poverty rates of the same households.[9]

Table 1 – Average age of leaving the household of origin (exit-age)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2007-16*
Croatia	30.7	30.7	30.8	31.0	31.1	31.6	31.9	31.0	31.4	31.5	*0.8*
Rep. of Macedonia	30.7	30.8	30.9	31.1	31.0	31.5	31.6	32.0	31.7	31.2	*0.5*
Slovakia	30.2	30.4	30.6	30.6	30.8	30.9	30.7	30.8	30.9	31.0	*0.8*
Malta	30.0	30.1	30.2	31.0	30.9	30.4	30.1	30.6	31.1	31.8	*1.8*
Slovenia	30.0	30.0	29.9	29.5	29.2	29.1	28.8	28.6	28.2	28.2	*-1.8*
Italy	**29.8**	**29.7**	**29.7**	**29.7**	**29.7**	**29.8**	**29.9**	**30.1**	**30.1**	**30.1**	***0.3***
Bulgaria	29.2	29.3	29.2	29.9	29.9	29.7	29.1	29.1	28.7	29.4	*0.2*
Poland	28.6	28.6	28.3	28.2	28.5	28.5	28.2	28.3	28.3	28.0	*-0.6*
Greece	28.5	28.5	28.2	28.3	28.7	29.0	29.3	29.3	29.4	29.1	*0.6*
Portugal	28.5	28.8	28.7	28.7	28.7	28.8	29.0	28.8	28.9	29.1	*0.6*
Spain	28.4	28.4	28.3	28.4	28.5	28.7	28.9	29.1	29.0	29.4	*1.0*
Lithuania	28.3	26.8	26.7	26.8	26.5	26.0	25.9	26.1	25.6	25.4	*-2.9*
Romania	28.3	28.4	28.5	28.2	28.4	28.5	28.5	28.5	27.9	28.1	*-0.2*
Hungary	27.8	27.8	27.8	28.0	27.8	27.9	27.8	27.7	27.5	27.6	*-0.2*
Czech Republic	27.3	27.3	27.2	27.0	27.2	27.0	26.7	26.7	26.5	26.3	*-1.0*
Latvia	27.2	27.1	27.8	28.1	27.7	27.9	27.8	28.0	27.5	27.7	*0.5*
Cyprus	26.7	26.4	26.2	25.8	26.4	26.9	27.8	28.4	28.4	27.1	*0.4*
Turkey	26.6	26.5	26.6	26.8	27.0	27.2	27.3	27.6	27.3	27.4	*0.8*
Luxemburg	26.5	26.3	25.9	26.2	25.9	26.2	26.4	26.7	**23.1**	24.4	*-2.1*
Euro Area (1)	26.0	26.0	26.0	26.1	26.1	26.1	26.2	26.3	26.3	26.3	*0.3*
EU28 (1)	26.0	26.0	26.0	26.0	26.0	26.1	26.1	26.2	26.2	26.2	*0.2*
Ireland	25.6	25.4	24.9	25.1	25.5	25.4	25.6	25.8	26.3	26.4	*0.8*
Belgium	25.5	25.5	25.4	25.4	25.4	24.9	24.9	25.1	25.0	25.2	*-0.3*
Austria	25.4	25.5	25.3	25.5	25.4	25.4	25.4	25.4	25.5	25.3	*-0.1*
Estonia	25.3	24.8	24.6	24.4	24.6	24.6	24.3	24.2	**23.6**	**23.6**	*-1.7*
Germany	**23.9**	**23.9**	24.1	24.1	24.0	**23.8**	**23.9**	**23.8**	**23.8**	**23.7**	*-0.2*
United Kingdom	**23.6**	**23.8**	**23.9**	**23.9**	**23.5**	**23.9**	24.1	24.3	24.4	24.3	*0.7*
France	**23.4**	**23.4**	**23.3**	**23.5**	**23.6**	**23.5**	**23.7**	**23.8**	**23.9**	**23.8**	*0.4*
Netherlands	**23.2**	**23.4**	**23.4**	**23.3**	**23.5**	**23.6**	**23.5**	**23.6**	**23.7**	**23.7**	*0.5*
Finland	**22.0**	**22.0**	**22.0**	**21.9**	**21.9**	**21.9**	**21.9**	**21.9**	**21.9**	**21.9**	*-0.1*
Denmark				**21.2**	**21.0**	**21.1**	**21.0**	**21.2**	**21.1**	**21.0**	*-0.2*
Sweden			**20.4**	**20.3**	**20.3**	**19.9**	**19.6**	**20.8**	**19.7**	**20.7**	*0.3*
Italy *vs.* Euro Area	**3.8**	**3.7**	**3.7**	**3.6**	**3.6**	**3.7**	**3.7**	**3.8**	**3.8**	**3.8**	***0.0***
Italy *vs.* EU28	3.8	3.7	3.7	3.7	3.7	3.7	3.8	3.9	3.9	3.9	*0.1*

Countries and years with an exit-age less than 24 (i.e. less than the upper bound of the youngsters age bracket referred by IMF)

Source: based on Eurostat data.

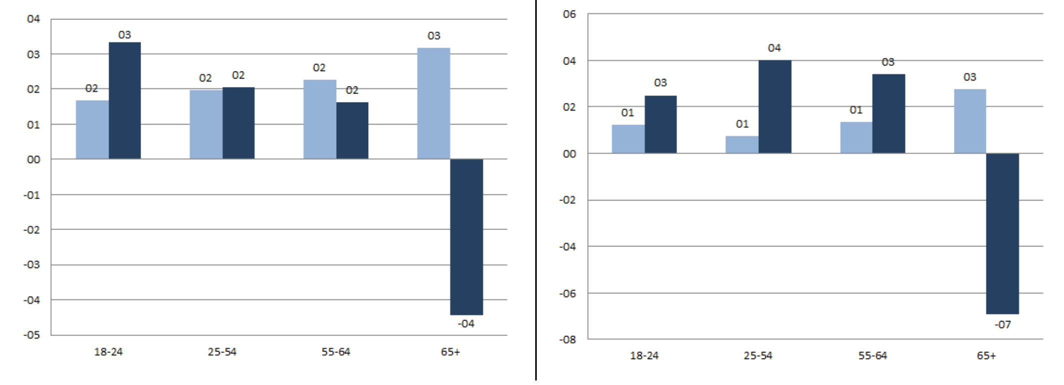
[7] Even if Italy bridged the gap with respect to European averages, its exit-age would continue to fall beyond the bracket 18-24 years.

[8] Annualized rate in compound capitalization.

[9] The proportion of individuals living in households whose disposable income is less than 60 percent of the national median value.

Figure 1 – Equivalent income and poverty rates of the reference households

EU28	*ITA*



Households' equivalent incomes (PPP); 2007-16 compound growth rate (CAGR)

Relative poverty rate; 2007-16 change (percentage points)

Source: based on Eurostat data.

Looking at Figure 1, while for the aggregate of EU28 countries it is confirmed that the youngsters aged 18-24 are the most hit by the crisis (they show the lowest growth rates in disposable incomes together with the sharpest increase in relative poverty rates), for Italy the evidence reports something different. Here the strongest impact was borne by those aged 25-54 and to a lesser extent by those aged 55-64 years (the growth in disposable incomes is slightly higher than for young people but combined with a more pronounced deterioration in the poverty rate).

Given the limitations in the availability of data, the IMF analysis cannot take into account a structural aspect of the Italian socio-economic system, pre-existing the crisis and highlighted by the crisis: that is the important role of Italian traditional households, in which children usually prolong their co-living with parents far beyond the completion of their studies. In the years of the crisis, this permanence within the household of origin has played a protective role, providing informal assistance against unemployment and poverty risk. Looking at exit-ages in Table 1, the aforementioned effect may have embraced not only youngsters aged 18-24 but also young adults belonging to the second bracket used by the IMF (25-54 years).[10]

During last years, this traditional feature of Italian households has been surely useful to alleviate the impact of the crisis; nevertheless, it must be clearly underlined that the same characteristic constitutes also an historical weakness for Italy.[11] Looking forward, it

[10] Even before the crisis, the average exit-age from the household of origin (Table 1) allowed to guess a phenomenon potentially involving young adults aged 30 years and more. Between 2008 and 2014, the exit-age increased by about 4 months (from 29.7 to 30.1 years).

[11] The problems of an overreliance on informal welfare provided by households can find amplification in places suffering from territorial divides, to the extent that the return to the household of origin (in another city, region, country) could imply for the young a break or a deterioration of professional relationships necessary for searching a new job and also possibly consequences in terms of social stigma with repercussions on the quality of social life. An overreliance on informal household welfare can reduce the mobility of human capital across regions of the same countries and also across countries. For an assessment

would be advisable not to continue to rely indefinitely on informal assistance provided by parents, but to strengthen formal active labour policies accessible to everyone on the basis of the same set of rules and aimed at promoting career progresses or, in case of unemployment, at reinserting young individuals at work as soon as possible. Support by parents is not equally distributed across young generations (is not available to everybody in the same way) and could not have sufficient targeting and effectiveness as formal well-designed policies.[12] Moreover, it should not be underestimated that parents' support implies in most cases a reduction in their equivalent disposable income, and consequently fewer resources that the elderly can use for their needs, including health care and long term care. Also this latter effect can arise in very differentiated manners according to the economic conditions of the household of origin, revealing another possible unsatisfactory aspect of an overreliance on informal support to youngsters and young adults within households.

Net of informal support offered by the households of origin, economic and living conditions of young Italians during the crisis would appear more aligned with what happened in the EU28 average. Therefore, policy guidelines outlined in the conclusion of the IMF paper remain valid, with particular reference both to the preparation of effective unemployment support and active employment policies for times of economic crisis, as well as to the implementation of other measures to stimulate a more rapid exit from the parents' household. In fact, regardless of economic cycles, skills and talents of youngsters and young adults are potentials that deserve to be freed and exploited for the advantage of all young individuals themselves and of the society as a whole.

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of the importance of informal household welfare in Italy, and more generally in Mediterranean Europe, see: MBSConsulting (2017), "Observatory on the welfare budget of Italian families", first Report presented to the Chamber of Deputies on 7 November 2006; Istat (2016), "Annual report", chapter 5 "The system of social protection and generational challenges"; Bertolini S. and M. Filandri (2015), "Work, home and family: the formal and informal strategies of young adults in Southern Europe", Sociologia del Lavoro, pp. 139 et seq.; Vogliotti S. and S. Vattai (2014), "Models of welfare state in Europe", IPL WP n. 1; Lyberaki A. and P. Tinios (2014), "The informal welfare state and the Family: invisible actors in the Greek drama", Political Studies Review, vol. 12; Naldini M. and T. Jurado (2013), "Family and welfare state reorientation in Spain and inertia in Italy from a European perspective", Population Review, 52 (1); Ferrera M., V. Fargion and M. Jessoula (2012), "At the roots of Italian welfare. Origins and future of an unbalanced social model", Bank of Italy Historical Series, Ed. Marsilio; De Roit B. and S. Sabatinelli (2005), "The Mediterranean model of welfare between family and market", Stato e Mercato, n. 74. On the same subject there is also a short but very incisive article by Maurizio Ferrera on Corriere della Sera, October the 14th, 2016, "Welfare, families (and young people) invisible", where the author comments the reasons why EU works and reports normally place Italian welfare system in the so-called "Group 4", comprising the most obsolete models, together with Bulgaria, Estonia, Croatia, Greece and Spain.

[12] On the contrary, informal assistance offered by parents can have the paradoxical effect of reducing incentives and effort spent by youngsters in search for a (new) work and for economic and housing independence.