THE WELFARE AND SOCIAL WAGE: ITALY AS A SEMI-SOCIAL MARKET ECONOMY (SSME)

Reza FAZELI[1], Rafat FAZELI[2], Anwar SHAIKH[3]

[1,2]California State University, Fullerton
[3]New School for Social Research

Abstract
This paper reviews the recent development of the welfare state and social policy in Italy. On the empirical level, our study is concerned with the benefits received and taxes paid by the working population. This measurement will enable us to find out whether the working population has received a net gain (or net social wage). The paper offers a comparative study of the trends of the "social wage" in Italy in the last decades before the Great Recession. It addresses two major questions. The first question is whether the expansion of social expenditures has posed any drag on capital accumulation and economic growth in this country. The second question is whether the increasing ideological challenges from the right and the competitive pressures of globalization have led to retrenchment of the Italian welfare states in the recent decades.

This study concentrates on the development of the welfare state and social wage in the last decades before the Great Recession of 2008. The Great Recession may have caused some disruption on the trends of social expenditures. In fact, Italy was unprepared to withstand the blow of the great recession. However, the Italian welfare state has witnessed significant changes since 2012. The sovereign debt crisis led to an external push for consolidation, which was accompanied by a wave of social policy reforms. These reforms did not necessarily entail retrenchment of the welfare programs. During both the Mario Monti and the Matteo Renzi governments, the policy of liberalization and economic reform was associated with the expansion of social rights, particularly, income support. As a result, today, the Italian welfare state looks

[1] *Department of Economics, California State University, Fullerton, e-mail: rf.fazeli@gmail.com*
[2] *Department of Economics, California State University, Fullerton & Department of Economics University of Redlands*
[3] *Department of Economics, New School for Social Research*

more comprehensive than it was before the crisis (1). In fact, the recent indications show that the ranking of Italy in terms of public and social expenditures has not significantly changed. A more careful evaluation of the possible changes in the trends of social expenditures and social wage requires a separate study.

Italy and France are treated by Pontusson (2) as separate categories out of his classification of “Liberal” and Social Market Economies”. Unionization is relatively low for these countries, 10 percent for France, and 35 percent for Italy. The Italian unionization (35 percent) and collective bargaining (80 percent) is a better match for the social market model. But her level of social spending as a percentage of GDP (23.9 percent) is at the lower end of the SMEs and its effect on income redistribution is significantly lower than many other SMEs.

According to the International Monetary Fund, in 2008 Italy was the seventh-largest economy in the world and the fourth-largest in Europe. With a GDP per capita of around $32000 in 2007, Italy’s living standard was just about the average of the EU. Italy’s diversified industrial economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized family owned enterprises. The Italian economy is divided into a developed industrial north, dominated by a highly-developed and capitalistic economy, and a far less advanced welfare-dependent, agricultural south, with high unemployment rate.

The inflation rate in Italy has been low with an average of 2.15 percent from 1997 until 2010. It was reported at 1.80 percent in July of 2010, slightly above the Euro Area of 1.60 percent, but lower that 3.4 percent in 2007. The 2010 rate is not, of course, representative of the usual trend of the Italian Economy. The rate of unemployment is 8.5 percent (June 2010), up from 6.8 percent in 2008; but lower than 10 percent for the Euro Area. (3)

Public expenditures have been in the upper middle range of the OECD Countries, 48.1 percent of GDP (2005-2007 average) as compared to 45.8 percent for Germany and 52.9 percent for France. Public expenditures have been substantially lower in the LMEs (liberal Market Economies): 36.7 percent for the United States, 39.9 percent for Canada, and 43.9 percent for the United Kingdom. (4) Italy ranks 8^{th}according to its spending as a share of GDP, and 15^{th} in terms of GDP per capita. (4) The Italian government is seeking to curb government spending, but the policy makers face a severe economic constraint: Italy's official debt remained above 100% of GDP, and the fiscal deficit -1.5% of GDP in 2007 - could approach 3% in 2009 as the public demand to stimulate the economy and the costs of servicing Italy's debt rise. The economy has continued to contract through 2009 as a result of the recent global financial and the declining demand for the Italian exports. The current account deficit is, on the other hand, manageable: $-78.03 billion in 2007, ranked 188th in the world. (5)

While the state expenditures increased in the early 1990s by about 3 percent of GDP, they have subsequently declined gradually. The highest level of the state expenditures in1993 at 56 percent of GDP; its lowest was in 2000 at 46 percent. But in the entire period, it has declined by 4 percent, from 53 percent in 1990 to 49 percent of GDP in 2006. Social wage has, however, remained stable over time. It was 26 percent of GDP in1990 and 27 percent in 2006; its lowest being in 2000 at 24 percent, the same year in which the state expenditures were the lowest. Despite the government's apparent effort to control public spending, social wage has been maintained at a minimal level with the European standards. The share of social wage in GDP has been consistently lower in Italy than any social market economy (including France), but higher than all liberal market economies, except for the United Kingdom-being roughly the same level as the percentage of GDP. (See Figure 1 for the state expenditures and social wage ratio trends.)

Figure 1. Social Wage & State Expenditures as a Percentage of GDP Italy

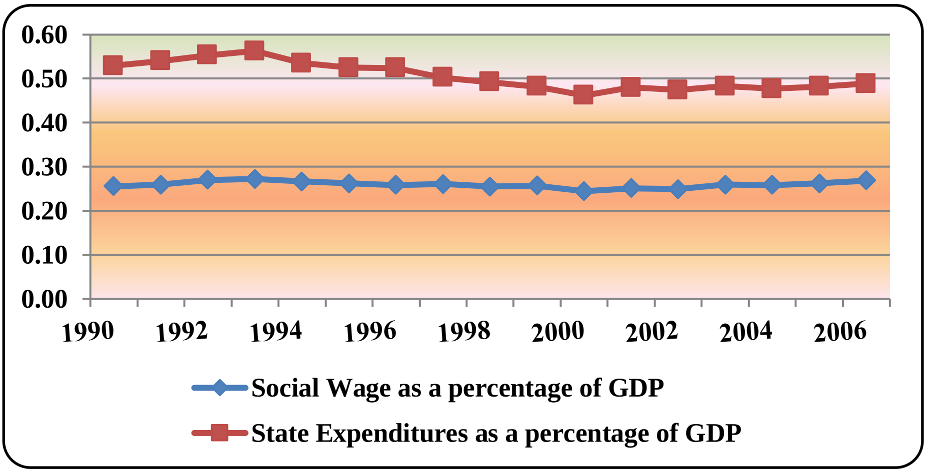


Figure 2. Social Wage Received & Taxes by the Working Population Italy

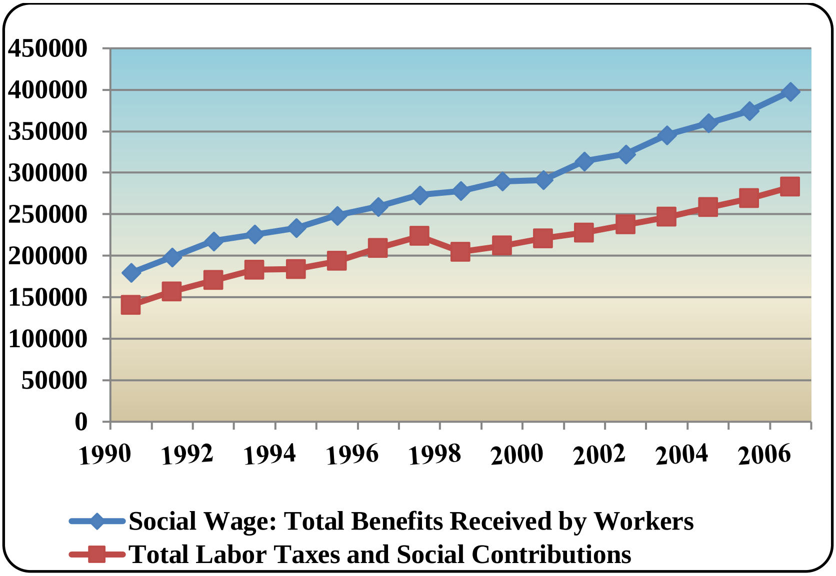
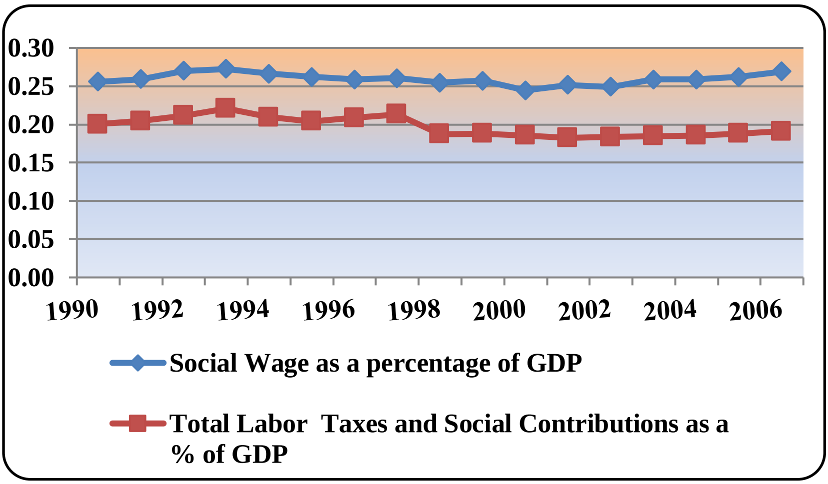


Figure 3. Social Wage & Labor Taxes as a % of GDP Italy



As Figure 3 shows, social wage and labor taxes (taxes paid by the working population) have remained relatively stable relative to GDP, both moving in an almost parallel manner. The share of the net social wage in GDP has fluctuated between 5 and 8 percent in this period. (See Figure 5)

Figure 4. Social Wage & Net Social Wage as a % Labor Income Italy

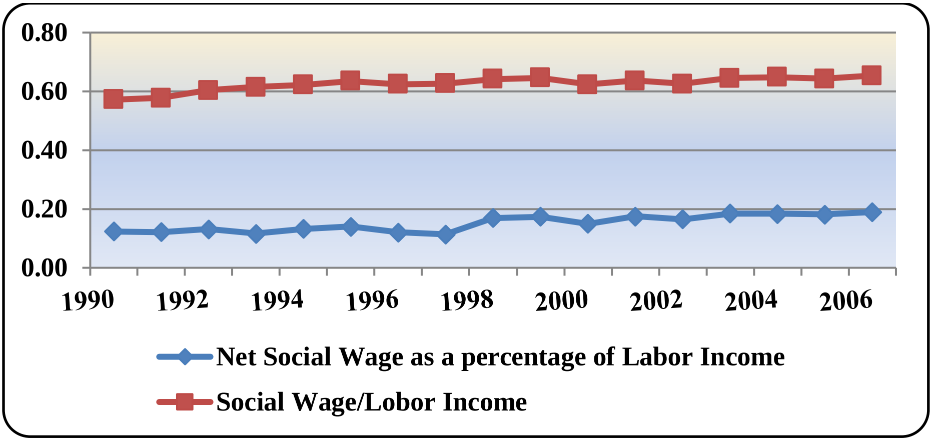


Figure 5. Net Social Wage as a percentage of GDP Italy

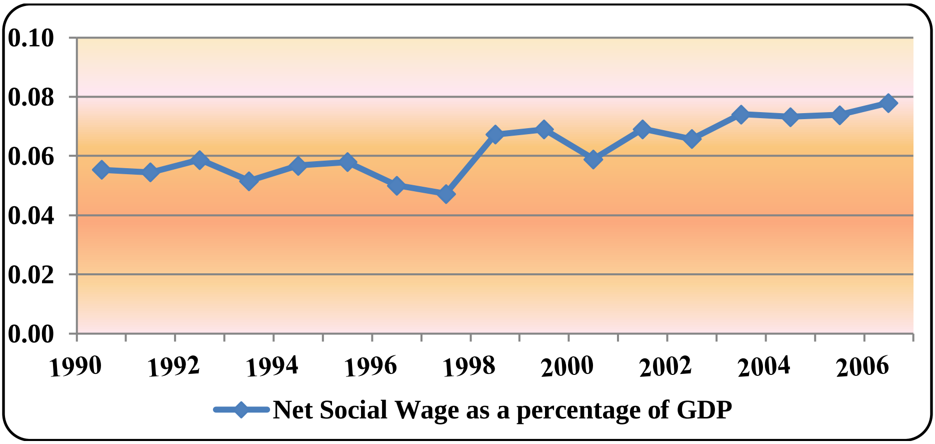


Figure 4 shows that social wage has accounted for a large share of the working population's compensations (and consumption), increasing from 57 percent of labor income in 1990 to 65 percent in 2006. This ratio has been lower than the French ratio, but moderately higher than that of Germany. But this trend does indicate that the Italian public policy has been more egalitarian than that of Germany. As we indicated, before, the Italian spending on social wage as a percentage of GDP has been lower than all SMEs, including Germany. The more substantial contribution of social wage to the working population's consumption reflects the fact that their overall living standards and wages have been lower than what the working population have been earning in the social market economies of Europe. Moreover the Italian average annual growth rate for labor compensation (per unit of labor), has been one of the lowest among the OECD countries in the last decade -2.3 percent for 1998-2008 period. (6) The share of the net social wage in labor's earning has also increased from 12 percent to 19 percent in 2006.

The Italian state social policy has contributed to a more egalitarian income distribution. In the mid-1980s, the pre-taxes and transfers Gini Coefficient was 0.42, while the after taxes and transfers Gini Coefficient was 0.31. In the mid-1990s, the pre-taxes and transfers Gini Coefficient increased to 0.51, while the after taxes and transfers Gini Coefficient increased to 0.34. The inequality increased further in the next decade. In the mid-2000s, the before tax and transfers Gini Coefficient increased to 0.56, while the after taxes and transfers increased only slightly to 0.35. (7) Thus the market induced inequality has substantially increased in Italy. However, state tax and social policies have effectively contributed to maintain a relatively equitable income distribution by the international and European standards. The Italian after taxes and transfer level of inequality has been higher than the social market economies, but lower than the liberal market economies, though very close to the British scale. Its, before taxes and transfers inequality, has increased substantially to a level, which is significantly higher than all liberal market economies including the United States and the United Kingdom.

Figure 6. Net Social Wage & Budget Deficit
Italy

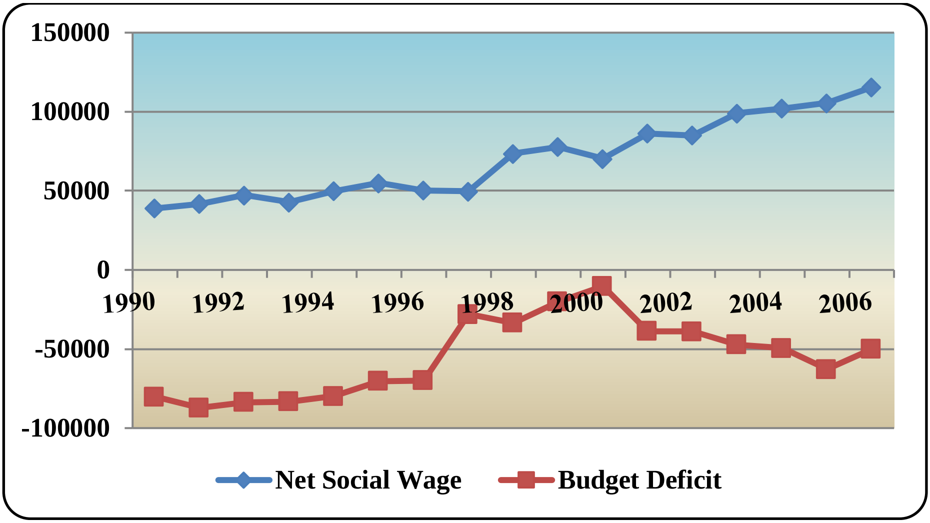
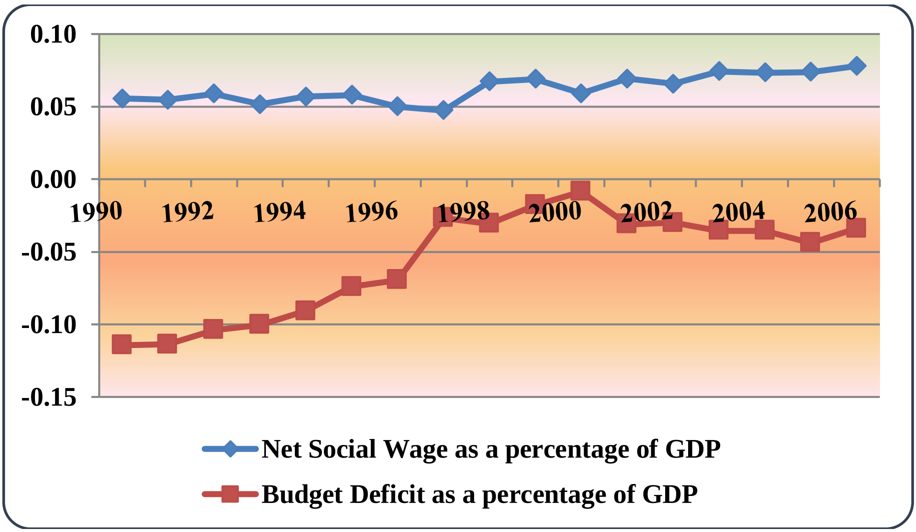


Figure 7. Net Social Wage & Budget Deficit as a % of GDP
Italy



Both Figures 6 and 7 reflect a partial correlation between net social wage and the budget deficit, in absolute terms and as the proportions of the GDP. There is a clear association between net social wage ratio and the budget deficit as a proportion of GDP after 1997. On the other hand, the budget deficit declines relative to GDP from 1990 to 1997. As it appears, the government has made a concerted effort to reduce the budget deficit from 11 percent to 3 percent of GDP. This is because, as we indicated before Italy has often experienced one of the highest levels of public debt among the OECD countries.

Figure 8. Net Social Wage as a percentage of GDP & Unemployment Rate Italy

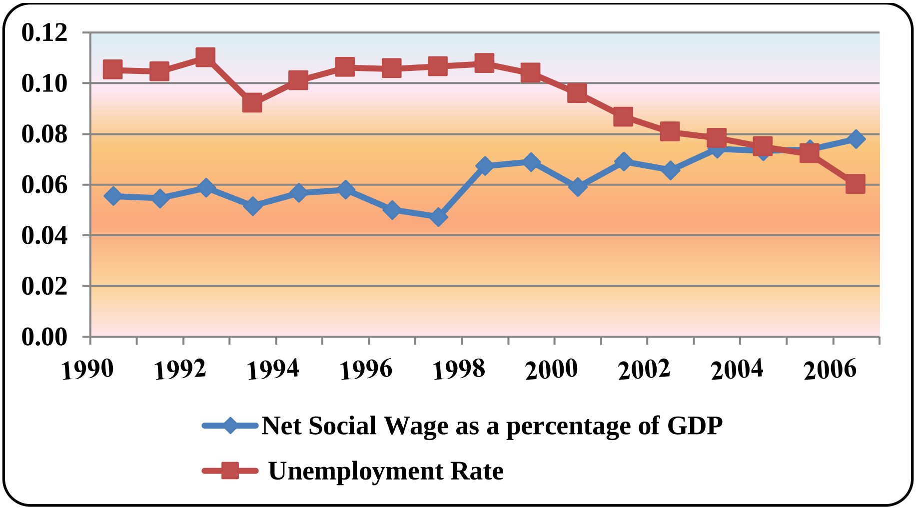


Figure 8 does not show significant association between the variations of the unemployment rate and the net social wage ratio. A correlation between the unemployment rate and the net social wage ratio exists only from 1990 to 1995. There is, however, no clear association between the variations of the unemployment rate and the net social budget ratio thereafter. In general, the net social wage ratio has been relatively stable, fluctuating between 5 and 8 percent of GDP in these 16 years. The rate of unemployment has also been rather stable at 10 to 11 percent up to 2000, declining gradually thereafter to 6 percent in 2006.

Figure 9. Net Social Wage & Budget Deficit as a % of GDP Italy (Counting cons. Taxes)

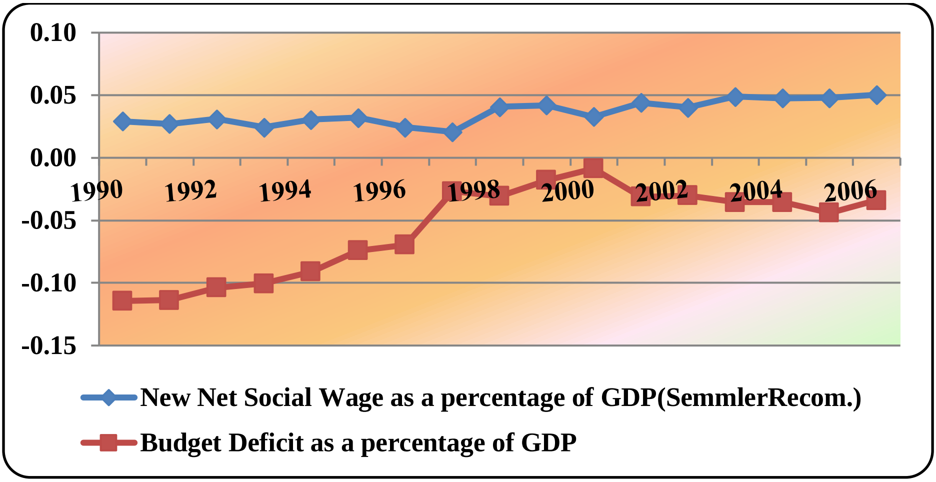


Figure 10. Net Social Wage as a percentage of GDP & Unemployment Rate Italy (counting cons. Taxes)

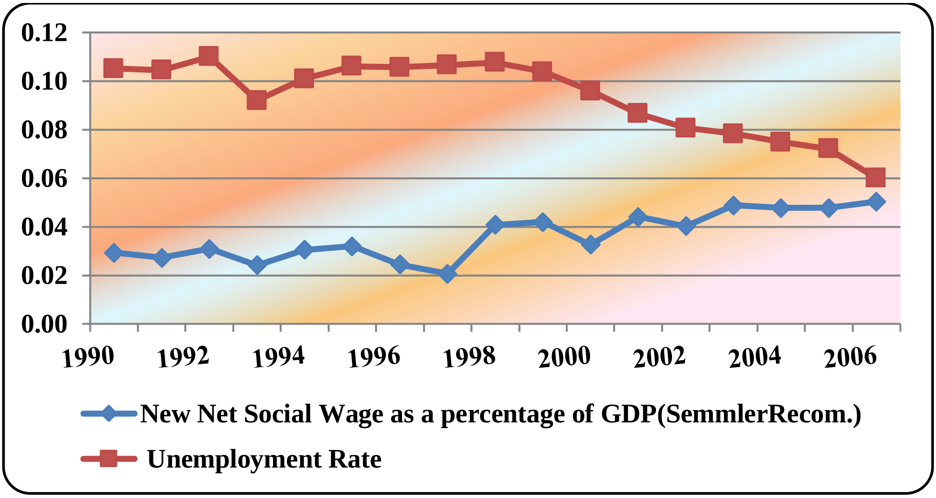


Figure 9 displays the association between the net social wage ratio and budget deficit and Figure 10 between net social wage ratio and unemployment rate. These two figures are based on the second assumption of production tax incidence. Figures 9 and 10 confirm our earlier discussion based on Figures 7 and 8 assuming no production tax incidence for the working population. Once again, the post-1997 shows a clear correlation between the budget deficit and net social wage in terms of GDP. In fact, Figure 10 shows that the variations in the unemployment rate have often been more distinct than the changes in the net social wage ratio. The net social wage ratio has remained relatively stable over this period, while the unemployment rate has been slowly declining from 2000.

Figure 11. Social Wage Received and Taxes Paid by Workers per worker Italy

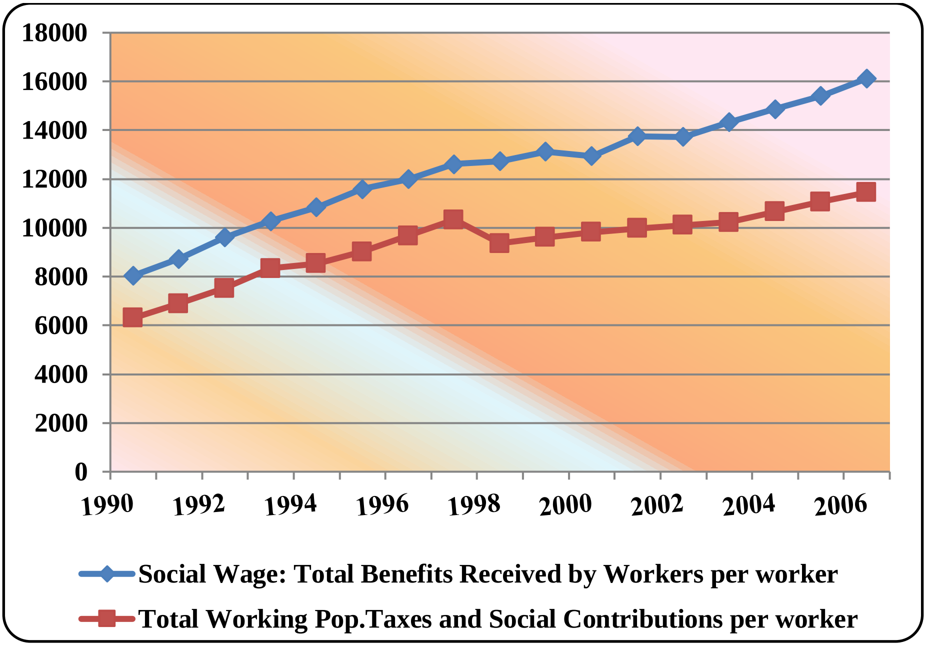


Figure 12. Net Social Wage per worker & GDP Per Worker Italy

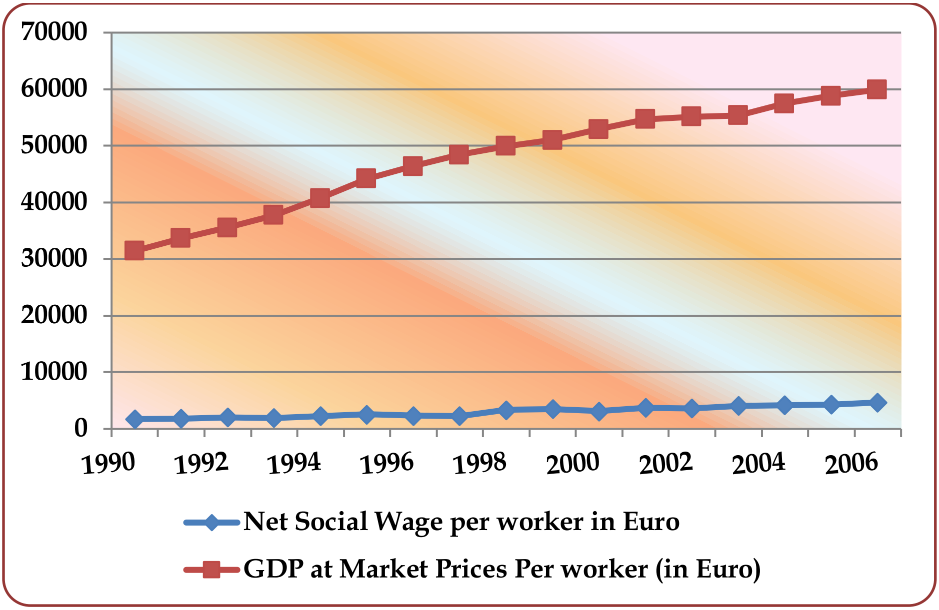


Figure 12 shows that while GDP per worker has been increasing at a reasonable rate, the net social wage per worker has remained stable. Thus the growth of the net social wage has remained well within the productive capacity of the Italian economy and has not caused any barrier to economic growth.

In short, social wage has accounted for a large and growing share of the working population's compensations as well as consumption, increasing from 57 percent of labor income in 1990 to 65 percent in 2006. The more substantial contribution of social wage to the working population's consumption reflects the fact that their overall living standards and wages have been lower than what the working population have been earning in the social market economies of Europe. Net social wage as a percentage of wages has been significant and has increased from 10 percent in 1990 to 15 percent in 2006. Without that the level of inequality would have been much higher.

References

- Sacchi, Stefano, (2018). The Italian Welfare State in the Crisis: Learning to Adjust? https://www.tandfonline.com/doi/full/10.1080/13608746.2018.1433478
- Pontusson, Jonas, (2005). Inequality and Prosperity: Social Europe vs. Liberal America, Ithaca, N. Y: Cornell University Press.
- Trading Economics. 2010. http://www.tradingeconomics.com/Economics/Inflation-CPI.aspx?symbol=ITL
- http://www.tradingeconomics.com/Economics/Inflation-CPI.aspx?Symbol=S
- Dewan, Sabina and Michael Ettlinger. 2009. “Comparing Public Spending and Priorities Across OECD
- Countries,” Center for American Progress, October. http://www.boell.org/downloads/Dewan__Eittingler_Comparing_Public_Spending.pdf
- EUbusiness. 2009. “Italy; Economic Overview,” 09 November, http://www.eubusiness.com/europe/italy/econ
- Eurostat. 2008. “National Accounts,”
- http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables
- OECD Factbook 2010: Economic, Environmental and Social Statistics - ISBN 92-64-08356-1
- OECD Stat. Extracts. 2010. http://stats.oecd.org/Index.aspx?QueryId=11112&QueryType=View
- OECD Stat. Extracts. 2010. http://stats.oecd.org/Index.aspx?QueryId=11112&QueryType=View