

Income distribution and the effect of the financial crisis on the Italian and USA labour markets

*Very Preliminary version*

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## Abstract

The financial crisis has significantly increased unemployment rates across the globe with differential effects on living standards. Our objective in this paper is to compare effects on income inequality in the Italian and the USA labour market. We will construct a microsimulation analysis on the impact of the crisis on household income, unemployment, and inequality using the European Statistics on Income and Living Conditions Survey, Italian Labour Force Survey data for Italy, and the Panel Study of Income Dynamics, for the United States.

We are most concerned with the effect of joblessness on household income and well-being and the impact of different systems of unemployment benefit on unemployment sustainability. Our focus is not only on the pecuniary dimension of well-being, but also the socio-economic impacts of unemployment. On the latter we can provide a first estimate on the cost in terms of limited access to medical and dental treatment and analyses and on the perception of not making ends meet for Italian unemployed as regards to their previous employment status.

The first section of the paper will briefly address the differences and similarities in the basic economic parameters in the US and Italian labour markets before and after the crisis. The second section (though incomplete) will discuss our findings from the simulation and multivariate analysis. The third will suggest ameliorative policies based on our findings and offer conclusions.

## **Introduction**

The current financial crisis is the most severe since the Great Depression. Although it began in the United States, it has significantly disrupted labour markets across the globe. Given the severity of the crisis it is important to analyze both the short-term cyclical effects on families and individuals and also the long-term effects of investment and economic growth.

In this paper we will analyze the short-term socioeconomic effects of high unemployment, while at the same time, delineating potential factors affecting long-term growth. Our focus is a comparative study between the labour markets of the United States and Italy. The first section of the paper will discuss and compare the two labour markets; the second section will discuss results from empirical testing; and the third will offer concluding observations and policies suggestions.

### **1. The impact of the crisis on the USA and Italian labour market**

#### **1.1. Similarities and Differences Between the US and Italian Labour Markets**

The Italian labour market is deeply divided into regional differences - the South and the Centre-North.<sup>1</sup> The former has historically had much higher unemployment rates and inactivity rates than the Centre-North. In addition, the South has much higher long-term and youth unemployment. In Italy, 15.5 percent of youth aged less than 25 were unemployed in EU-27 against 20.3 percent in Italy. For individuals in the 25 to 29 year age group, higher education does not reduce the risk of being unemployed: the unemployment rate is 11 percent for those with a low level of educational attainment, 8.6 percent for those with a medium level of educational attainment and 14 percent of those with tertiary education (Eurostat, 2009). Italy is also characterized by a higher diffusion of underground economy on average 11.7 of the total labour (against 5% on average in other EU15 countries) showing a larger incidence of irregular labour in the South of Italy: in 2004 with respect to total employment it ranged from 7.5% in region Emilia Romagna to 26.2% in Calabria region (Cappariello and Zizza, 2009; European Commission, 2004).

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<sup>1</sup> On the persistence of these regional disparities see Svimez (2007).

Different from the USA the Italian labour market is characterized by a higher degree of trade union density and union coverage. The degree of trade union density has decreased in Italy from 50% in 1980 to 33.3% in 2007 and in the USA it ranges from 22% in 1980 to 11.6% in 2007 ([www.oecd.org](http://www.oecd.org)).

Since 1996, the non-standard share of Italian employment (including short term contracts) has significantly increased. According to ISTAT data (2009a), 13.3 percent of employees in 2008 are in short-term contracts with a higher diffusion of temporary work amongst women (15.6% of women employees are in temporary jobs) and young (23.7% of employees aged less than 34 are in temporary jobs) (ISTAT, 2009a, p.242).

Compared to the US, Italy is characterized by lower activity rates (Table 1). Though increasing with respect to 1994, in 2007 women's activity rate in Italy was on average 50.7 percent, compared to 69.1 percent in the US.

Table 1 – Labour force participation rates 1994-2007 women and men Aged 15-64

	1994		2007	
	M	F	M	F
USA	84.3	69.4	81.7	69.1
Italy	74.2	41.9	74.4	50.7
Euro-15	78.4	56.5	79.5	64.5
OECD	81.4	57.8	80.5	61.1

Source Table B Oecd Employment Outlook 2008 337-338.

Turning to employment rates (Table 2) in Italy the employment rate of women aged 15-64 in 2007 was 46.6% against 70.7 for men with 24 percentage points gap at the disadvantage of women. This while the gender gap in employment rates is on average 14 percentage points in EU-27 and 19 percentage point in OECD countries and 12 percentage points in the USA.

Table 2 – Employment rates 1994-2007 women and men aged 15-64

	1994			2007		
	M	F	gender gap	M	F	gender gap
USA	79	65.2	14	77.8	65.9	12
Italy	67.8	35.4	32	70.7	46.6	24
Euro-27				72.5	58.3	14
OECD	75.4	52.9	23	76	57.5	19

Source: [www.oecd.org](http://www.oecd.org) statistical data base.

## **1.2 – The effect of the crisis on the Italian and USA labour markets**

In December 2009 the US unemployment rate at 10.0 percent surpassed that of Europe at 9.7 percent. In the USA December 2009, unemployment rates were —10.2 percent for adult men, 8.2 percent for adult women, 27.1 percent for teenagers, 9.0 percent for whites, 16.2 percent for blacks, 12.9 percent for Hispanics, and 8.4 percent for Asians. The number of long-term unemployed (those jobless for 27 weeks and over) continues to increase, reaching 6.1 million. In December 2009, four out of ten unemployed workers were jobless for 27 weeks or longer.

The civilian labour force participation rate fell to 64.6 percent in December 2009 from 66 percent in 2008. The employment-population ratio declined to 58.2 percent. Of significant interest especially for the long-term effects of the crisis, is that after the 2001 recession ended the labour force participation rate (LFPR) continued to decline, never reversing itself, unlike every post WWII recession.

Previously the LFPR would decrease during a recession, then rebound and better its pre-recession peak within one or two years. During the 1973-1975 recession for example, the LFPR decreased slightly in 1974 and by 1975 resumed its upward trend, and in 1976 surpassed its pre-recession peak in 1973. Likewise during the July 1990 –March 1991, recession the LFPR dipped in 1991 but by 1994 had surpassed its pre-recession peak and during the double-dip recessions of 1980 and 1981 the LFPR never decreased.

While data remains preliminary, one hypothesis is that the financial assets of older workers deteriorated during the collapse of the stock market bubble in 1999-2001; and their assets suffered a further deterioration in housing assets during the current crisis, causing them to re-enter the labour market. But this still fails to explain why the LFPR for prime age men and women did not increase after 2001 as it has in every other post WWII recession. Something is fundamentally changing in the US labour market which predates the financial crisis.

The number of persons employed part time for economic reasons, defined as individuals working part time because their hours had been cut back or because they were unable to find a full-time job was unchanged at 9.2 million in December 2009 and has been relatively flat since March 2009 witnessing a significant increase since 2007.

In the U.S., the gender unemployment gap is the most disproportionate since record keeping began in 1948. According to the Bureau of Labor Statistics (BLS), male unemployment rates

reached 10.2 percent in December 2009, falling slightly from 10.4 percent November 2009. And for women, the unemployment rate hit 8.2 percent in December 2009, increasing slightly from 8.0 percent in November 2009. This gender gap is the largest in modern U.S. history and as of October of 2009, men accounted for 5.3 million of the 7.3 million total jobs lost since the recession began. Probably because approximately half of all job losses have been in manufacturing and construction, which are overwhelmingly male. And since four in ten jobs created by the stimulus funds will be going to female jobs, it is predicted that females will have gained twice as many jobs as have been lost.

The U.S. labour market is characterized by sexual and racial discrimination. Women on average earn less than men within and across all occupations. In addition, there is pronounced occupational sex segregation and male dominated occupations jobs have higher earnings than female dominated occupations. The current recession will exacerbate both wage discrimination and occupational segregation. Data from the US Census Bureau indicates that in 2008, real median earnings for full-time, male workers declined 1.0 percent from \$46,846 in 2007 to 46,347 in 2008. Real median earnings of full-time female workers declined from \$36,451 in 2007 to \$35,745 in 2008, a decline of 1.9 percent.

Table 3 shows the OECD harmonized unemployment rates from 2006 until the first quarter of 2009. The change in the unemployment rate since December 2007 was 1 percent in Italy compared to 4.6 percent for the US. According to OECD projections the unemployment rate in 2010 (quarter IV) will be 10.5% in Italy and 10.1% in the USA (Oecd, 2009, p.27). The most recent data available for Italy are based on provisional labour force survey monthly data and show a 8.5% unemployment rate in Italy in December 2009 (Istat, 2010) lower than 10% in the Euro area (Eurostat, 2010) with a higher level for women (10%, higher than 1.5% with respect to December 2008) and a lower level of men (7.5% with an increase by 1.5% since December 2008).

The increase in the unemployment rates in Italy has been particularly high amongst youth. The unemployment rate for individuals aged from 15 to 24 in Italy was 26.3 percent in the first quarter of 2009 (Eurostat, 2009). This unemployment rate was higher than the EU average of 18.9%, though lower than Spain (where it reached 35.7% in the first quarter of 2009) (Eurostat, 2009). The increase in the 15-24 unemployment rate by 5 percent points in the first quarter of 2009 was the highest increase since 1992. This increase can be connected to the reduced number of hirings and the lack of renewal of temporary contracts (Bank of Italy, 2009). In the U.S., the unemployment rate for teenagers (16 to 19 years) in December 2009 was 24.8% of the labour force, more than twice the overall unemployment rate. The unemployment rate for individuals

aged less than 25 is 17.5 percent.

Increased youth unemployment is problematic for both developed and developing nations and represents a significant long-term global problem. High rates not only decrease entry level wages, which tend to persist over the individual's life-cycle but also demoralize potential labour market participants. The loss of current and potential output can significantly impact long-term economic growth.

In the United States, according to the BLS, the number of discouraged workers (not currently looking for work because they believe no job is available) increased from 642,000 in December 2008 to 929,000 in December 2009. In December 2009, approximately 2.5 million workers were marginally attached to the labour force – compared to 1.9 million in December 2009. The marginally attached are not officially in the labour force, but had wanted and were available for work, and officially not counted as unemployed since they had not looked for work in the four weeks preceding the survey, although they had looked for a job sometimes in the prior twelve months. The number of discouraged workers, generally increasing with recessions, shows a greatest increase for young people, blacks, Hispanics, and men. These demographic groups were over-represented relative to their numbers in the labour force. Once again this presents a significant obstacle to long-term economic growth.

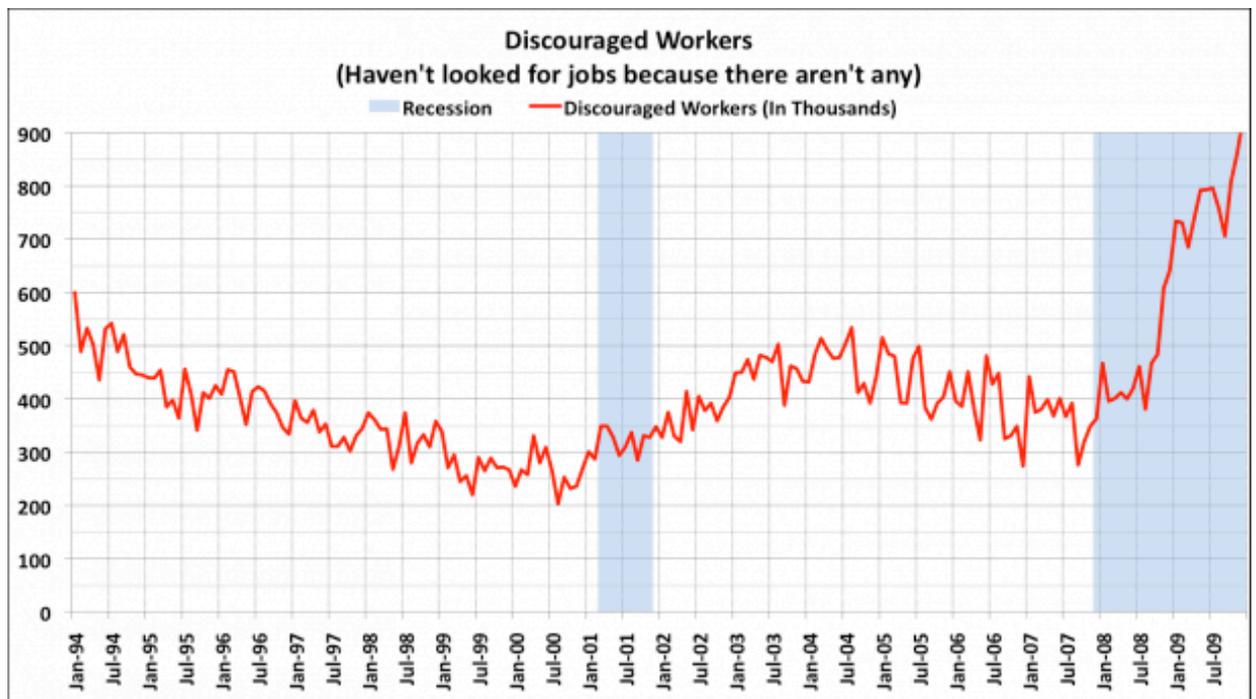


Figure 1 – Discouraged workers in the USA 1994-2009

Chart from: [http://business.theatlantic.com/2009/09/discouraged\\_workers\\_and\\_seasonality.php](http://business.theatlantic.com/2009/09/discouraged_workers_and_seasonality.php)

In Italy, the already low activity rate has decreased particularly in the South (Bank of Italy, 2009b). December 2009 provisional labour force survey data indicate an increase of inactivity rates by 0.5 percentage points since December 2008 for men, while the inactivity rates for women (that did not increase by comparing December 2009 and December 2008 Labour force survey data) aged 15-64 years is 49 percent and for similar aged men 26.4 percent (Istat, 2010).

In Italy, the number of workers who access to redundancy fund has increased. According to National Social Insurance Institute data in the second quarter 2009 the number of hours paid by the redundancy fund increased by 60 percent compared to the first quarter, with the highest increase since 1985 of the number of employees under this fund who are not statistically computed amongst the unemployed (Bank of Italy, 2009b). The number of the national institute of social security (INPS) authorized redundancy hours increased by 311.4% from 2008 to 2009 (INPS data). The highest increase in 2009 was in the metallurgic sector (+866%) followed by the mechanical (+449%), wooden (+425%), trade (+410%), transport and telecommunication (+397%), mineral and non metal minerals work (+335%), services (+335%) and extraction (+328%) (INPS data). Computing employees receiving redundancy funds amongst the unemployed, the unemployment rate in northern-central Italy would increase by 1.4% and in the South by 0.7 percent (Bank of

Italy, 2010). By including unemployed who were not actively seeking a job in the 4 weeks before the interview but before (discouraged) and redundancy fund beneficiaries the Italian unemployment rate in the second 2009 quarter would have increased being 10.2% instead of 7.4%; the increase due to computation of redundancy fund beneficiaries is estimated to account for 1.2% while computing also the discouraged would have accounted for 1.6% of the increase (Bank of Italy, 2010).

Table 3 - Oecd harmonized unemployment rates 2006-2009 quarter 1

	2006	dec.2007	2007	2008	2009 q1	% of increase since dec.07
USA	4.6	4.6	4.6	5.8	8.1	4.6
Italy	6.8	6.4	6.1	6.8	7.4	1
Euro Area	8.3	7.3	7.5	7.6	8.8	2.1
OECD	6.2	5.6	5.7	6	7.5	2.7

Source Table 1.1 Oecd Employment Outlook 2009 p.25

Table 4 - Long-term unemployment rates (12 months and over) as percentages of male and female unemployed

	1994		2005		2006		2007		2008	
	M	F	M	F	M	F	M	F	M	F
Italy	59.6	63.3	50.5	53.8	50.8	54.8	47.3	52.3	44.9	49.9
USA	13.9	10.2	12.6	10.8	10.7	9.2	10.7	9	10.9	10.3
EU 15	46.9	50	43.6	44.6	45.2	44.1	42.3	41.6	38.3	39
Oecd	34.9	36.2	32.7	32.8	32.3	32	29.1	29.1	25.4	26.5

Source: Selection from Oecd (2009) Table G p.272.

The incidence of long term unemployment (12 months plus) though decreasing, is higher in Italy than in the US. Table 4 indicates that in 2008 almost 45% of men and almost 50% of women unemployed in Italy are long-term unemployed compared to 11% of men and 10% of women in the USA. The percentage of long-term unemployed in Italy in 2008 is higher than the average EU-15 whereas the incidence of long-term unemployed in 2008 was lower than Oecd average in the USA. On average long term unemployed rates for women are higher than for men in Italy and lower in the USA.

According to the BLS, data on the net change in employment (difference between jobs gained and jobs lost) indicates that the economy lost approximately 85,000 jobs (manufacturing 27,000; construction 30,000; government 21,000; and retail 10,000) in December 2009, although in November 2009 it gained only 4,000 jobs, in December it failed to show this trend. (NYT 2010) In order to absorb new entrants the US economy requires approximately 100,000 new jobs monthly.

The unemployment insurance system in Italy is characterized by inequalities derived from differences in the eligibility conditions and in the different duration and degree of coverage (Anastasia, Mancini and Trivellato, 2009). The share of contributory unemployment benefit with respect to previous earnings can range from 80% for ordinary and special wage supplementation funds to 40% for ordinary unemployment benefits after the eighth month of the unemployment spell.

Since eligibility requires previous employment, there is on average a relatively low degree of coverage. According to OECD data the net replacement rate during the first year of an unemployment spell in 2007 was 37% in Italy and 28% in the USA with a 5 year average of 7% for Italy and 6% for the USA against a median of 28% (from 72% in Norway to the lowest rate experienced by the USA and Korea) (Oecd, 2009, Table 1.6 p.76). In Italy there is a high variation of the degree of coverage of the system of unemployment benefits according to the type of contract: amongst permanent employees about 96% would be subsidized, against 70% of fixed term contract workers and about 17% of collaborators (Bank of Italy, 2009 a).

Notwithstanding the recent extension of the redundancy system, of the ordinary unemployment benefit to fired apprentices with a minimum of three months tenure, the inclusion in the tenure for the eligibility to ordinary unemployment benefits also of employment spells as collaborators and provisions for a subgroup of collaborators introduced by the Italian government (laws 2/2009; 33/2009 and 191/2009) Bank of Italy's simulations on EU SILC and Istat Labour force survey data show that about 1,6 millions of employees or under collaboration contract would not have access to unemployment benefits in case of redundancy or contract interruption (Bank of Italy, 2009 a), Berton, Richiardi and Sacchi (2009) simulation based on the National Social Security Institute INPS microdata show that from 1,500,000 to 2,000,000 workers will not be covered by unemployment benefits if they lose their job.

In US. the unemployed are typically eligible for unemployment insurance provided by the government, in order to provide temporary income support. Unlike Italy, the heterogeneity of the US compensation system is due to differences in eligibility between the states.

A key characteristic of the US labour market is the continued erosion of the economic, and social safety net that has characterized American workers since the end of the World War II, "the tightrope of work is higher, the winds of change that buffet us on it are stronger, but the safety net below is tattered and incomplete" (Hacker 2006: 83).

The American Reinvestment and Recovery Act of 2009 (ARRA) focuses on short-term cushioning of the unemployed with increased unemployment benefits on investment as the key to long-term economic growth to foster most of the growth in the economy overall.

The following are key benefits from the ARRA,  
(<http://www.progressivestates.org/node/23230>),

- Half of the states passed measures over the last four months to extend unemployment insurance to low-wage workers, women, part-time workers, and the long-term unemployed, with an additional 150,000 workers annually eligible for UI benefits.
- 21 states changed their laws to extend unemployment insurance benefits by 13-20 weeks if their state's unemployment rate reaches 6.5 percent. According to the BLS, 33 states have unemployment rates of at least 6.5 percent.
- UI reform has been a bipartisan effort with nine Republican governors signing legislation, despite initial unwillingness by some high-profile Republican Governors. The states enacting changes will receive \$3.2 billion of funding.

While extension of unemployment benefits is necessary in the short-term the remaining effects of the ARRA on the long term will be investigated as part of our ongoing research.

## 2. Empirical Analysis: The experience of unemployment in Italy and in the USA

In this section we carry out a microsimulation analysis and a multivariate analysis to estimate the effect of joblessness on household income and well-being and the impact of previous employment status (and related unemployment benefit) on unemployment sustainability. Our focus is not only on the pecuniary dimension of well-being, but also the socio-economic impacts of unemployment.

A direct cost of unemployment is loss of income. Italian unemployment benefits are very fragmented and this can produce different costs according to one's prior employment status. OECD (2009) analysis on the ability of the social transfer system to alleviate poverty indicates that while the USA had emphasized alleviation of poverty towards households with working members rather than towards jobless households, in Italy the alleviation of poverty focuses more on jobless householders than for working households.

The latest available EU SILC – European Union Statistics on Income and Living Conditions for Italy (IT SILC 2008) refer to 2007 income and report the difficulties experimented by families in the 12 months preceding the last quarter of 2008. Preliminary results indicate an increase in the number of households who have experienced great difficulties in making ends meet (17% in 2008 against 15.4% in 2007); with worse numbers in the South of Italy (from 22% in 2007 to 25.6% in 2008) whereas it is stable and lower in the Centre (14.3%) North (12.6%) (Istat, 2009c).

### ***2.1 – The costs of being unemployed in Italy in terms of income poverty and access to health services***

We extend our analysis to the increased probability of unemployed becoming poor. For this purpose we have estimated a probit model using IT SILC 2007 microdata.<sup>2</sup> The results in column (1) of Table 5 indicate that unemployment increases the probability of being defined as income poor (when the equivalised disposable income is less than the poverty threshold: 60% of median equivalised disposable income<sup>3</sup>). The probability of being income poor significantly increases amongst those unemployed who have never had a job, followed by previously self-employed. Those

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<sup>2</sup> The Italian sample (IT-SILC XUDB 2006) refers to 21,499 households and 54,512 individuals.

<sup>3</sup> Equivalised total disposable household income has been obtained by using the modified OECD equivalence scale.

who were formerly employed, though experiencing an increase in the probability of being defined income poor, show a lower probability to be income poor than other unemployed.

Turning to the perception of difficulties in making ends meet we have estimated an ordered probit model to highlight the effect of unemployment taking into account family, personal and regional variables, as estimates in Table 5 (column 2) show greater difficulties are perceived by the unemployed in making ends meet, with the effect being higher for the unemployed who were formerly self-employed with employees. These results are consistent with the limited coverage of the Italian system of unemployment benefit discussed in the previous Section.

Investigating other dimensions of the cost of unemployment we estimate the probability of having unmet medical or dental needs (Table 5 column 3). The unemployed who were formerly self employed without employees, have higher probability of not having access, since they consider the costs too expensive.

Table 5 - Multivariate analyses on poverty probability and costs of being unemployed

	Col. (1) Probit model on Income Poor	Col. (2) Ordered probit ability to make ends meet <sup>4</sup>	Col. (3) Probit model on unmet med.dent.
Age	0.046** (6.54)	-0.025** (7.24)	0.050** (5.99)
Age squared	-0.001** (7.57)	0.000** (9.50)	-0.001** (5.36)
Female	-0.063* (2.37)	0.000 (0.03)	0.074* (2.42)
Married or cohabiting	-0.118** (2.90)	0.098** (5.54)	-0.042 (0.91)
Sep. divorced	0.349** (6.58)	-0.213** (8.07)	0.285** (4.42)
Widow	0.074 (0.87)	-0.112** (2.65)	0.174* (2.05)
Secondary	-0.233** (5.99)	0.182** (9.37)	-0.148** (3.19)
High school	-0.530** (13.03)	0.530** (26.85)	-0.359** (7.43)
Tertiary	-0.974** (16.85)	1.021** (42.27)	-0.655** (9.30)
Part-time	-0.387** (7.55)	0.150** (6.30)	-0.174** (2.98)
Unemployed previously self employed with employees	0.669* (2.38)	-0.934** (3.85)	0.374 (1.00)
Unemployed previously self employed without employees	0.560** (3.71)	-0.422** (5.63)	0.366* (2.13)
Unemployed previously employed	0.237** (3.40)	-0.406** (11.05)	0.155 (1.90)
Unemployed never employed before	0.790** (9.84)	-0.493** (10.38)	0.147 (1.43)
Inactive	0.159** (3.08)	0.019 (0.76)	-0.157** (2.61)
Chronic ill	0.056 (1.60)	-0.187** (11.22)	0.408** (11.57)
d05	0.237** (5.80)	-0.065** (3.43)	0.066 (1.45)
d614	0.249** (8.32)	-0.146** (9.87)	0.186** (5.19)
d1517	0.250** (7.52)	-0.083** (4.53)	0.092* (2.16)
South	0.784** (31.72)	-0.448** (36.39)	0.252** (8.55)
Constant	-1.606** (11.20)		-2.438** (14.09)
Observations	35,219	35,219	35,219

Robust z statistics in parentheses

\* significant at 5%; \*\* significant at 1%

<sup>4</sup> The variable on the perceived ability to make ends meet takes the following values: 1 with great difficulty; 2 with difficulty; 3 with some difficulty; 4 fairly easily; 5 easily; 6 very easily.

### ***Effect of increased unemployment on poverty rates and income distribution***

In order to simulate the effect of the increased unemployment on income distribution and poverty rates we have imputed to each record of IT SILC07 the probability of being unemployed estimated on third quarter Italian labour survey data, under the hypothesis that people who were unemployed in IT SILC07 would have been unemployed also in 2009.

We have then imputed to those who were not unemployed in IT SILC 2007 but, according to the simulation would have been unemployed in year 2009, an unemployment benefit obtained by estimation of a two step Heckman model on IT SILC07.<sup>5</sup>

The lower level of the simulated unemployment benefit shown in Table 6 than the actual one can be affected by the higher share of unemployment of youth and employed with an employment status characterized by a much lower unemployment benefit coverage in 2009.

We have then estimated the poverty rates and income inequalities indicators by using simulated equivalised household income as compared to the actual one. The simulated effect of unemployment increase on poverty rates brings about an increase in the poverty rate and in incomes inequality especially in the South of Italy where there is a higher probability that unemployed were formerly inactive, youth or in jobs uncovered by unemployment benefits (Tables 7, 8).

Table 6 - Descriptive statistics on actual and simulated unemployment benefit and equivalised household income for those who are estimated as unemployed in 2009

Variables	Mean	Std. Dev.
simulated unemployment benefit	400,03	303,74
IT SILC 07 actual unemployment benefit	690,55	2748,35
simulated equivalized household income	8923,82	12489,85
actual equivalized household income	11647,74	12913,95
number observations	1874	

Source: Our computation on IT SILC07

Table 7 - Poverty rates in Italy by area (simulated equivalised income and actual)

Area	Observations	Poverty Rate			
		sim.yeq		actual.yeq	
		Mean	Std.Dev.	Mean	Std.Dev.
North	11,531	0.11	0.31	0.08	0.28
Centre	5,697	0.15	0.35	0.12	0.33
South	7,091	0.40	0.49	0.34	0.47
Total	24,319	0.21	0.41	0.18	0.38

Source: Our computation on IT SILC07

<sup>5</sup> Estimates of the models used to impute unemployment probability and the unemployment benefits are available from the authors.

Table 8 - Gini Index actual and simulated equivalised household Income

Area	Observations	Simulated yeq Gini	Actual yeq Gini	Change in G.I.
North	11,531	0.296	0.291	0.016
Centre	5,697	0.456	0.451	0.013
South	7,091	0.353	0.337	0.049
Total	24,319	0.325	0.317	0.024

Source: Our computation on IT SILC07

## 2.2 – Costs of unemployment in terms of increased poverty and income inequality in the USA

[To be completed]

Based on the recent data (2008) from the US Census Bureau, a significant deterioration in the US labour market has occurred. The poverty rate for 2008 was 13.2 percent, the highest level since 1997, and the first statistically significant increase since 2004. In 2008, 39.8 million people were officially in poverty, up from 37.3 million in 2007. And mean real US household income decreased 3.6 percent from 2007 to 2008 from \$52,163 to \$50,303. We believe these trends will continue through 2009. Poverty population can be characterized into two distinct groups, the “temporarily poor” (those who experience poverty on an intermittent basis, i.e., one to as many as seven times over a 10 year period) and the “persistently poor” (those who seldom, if ever, have incomes above the poverty line, i.e., they are poor in 8 or more years over a ten-year period). The “temporarily poor” comprises of the major bulk (over 90%) of those in the poverty population, are in poverty due to events such as recessions, illness, disability and divorce. Perhaps an important implication to be drawn here for policy recommendation is that social insurance programs need to be structured to meet the needs of the two groups as mentioned above. The “temporarily poor” need a brief cushion of substantive financial support to make up for the lost income due to unemployment during recessionary periods. The “persistently poor” (about 10% of the poverty population) however have very little earnings from work and have very little work experience to qualify for unemployment compensation benefits. Reducing poverty among the “persistently poor” requires a combination of income maintenance program, food stamps which provide direct and in-kind benefits based on needs and job training programs that give individuals marketable skills.

Measures of income inequality for families, as measured by Gini ratios rose from 0.432 in 2007 to 0.438 in 2008. Shares of aggregate income received by households reveals that the top

20% received 21.5% and lowest 20% received 3.4 % of aggregate income in the U.S. in 2008. Measures of individual earnings inequality for full-time year round workers depict an increase in Gini index of .394 in 2007 to .403 in 2008 ([www.census.gov](http://www.census.gov))

We are currently completing multivariate analysis on poverty probability and unemployment status based on US Census Bureau and Panel Study of Income Dynamics to analyse more in depth the effect of the crisis and the unemployment benefit system on USA income distribution.

## **Conclusions**

A first impact of the crisis in both economies has been an increase in the unemployment rates. The Italian unemployment data must be complemented with data on the beneficiaries of redundancy hours (who are not computed amongst the unemployed) to assess more completely the effect of the crisis on the labour market.

In the USA, though higher than Italy, labour force participation has been decreasing continuously before the crisis, in Italy there is a wide share of the population (particularly in the South of Italy and particularly amongst women) who are inactive and has been discouraged from undertaking job search actions. This calls for statistical and econometric techniques able to account for their presence (Brandolini, Cipollone and Viviano, 2006; Jones and Riddell, 2006) and for a specific target in the employment and social policies to avoid their exclusion from the labour force.

Redundancy hours have increased in 2009 with access recently extended by the Italian government as a reaction to the crisis. However, the Italian system of unemployment benefits is highly heterogeneous with low coverage on average. Our results on the socioeconomic costs of unemployment indicate that the unemployed have more difficulties in the ability to make ends meet; a higher degree of income poverty and a high probability of not accessing medical or dental treatment. The costs change also according to employment status prior to unemployment.

Preliminary US data confirms a sharp deterioration in the labour market. Further testing are currently conducted and will be made available.

The estimated socio-economic costs of unemployment call for a reform of the system of unemployment benefits in order to reduce the degree of inequality and alleviate the costs of unemployment. Of crucial concern, especially for the implications of long-term growth is the high incidence of youth unemployment.

In both countries, unemployment compensation is the most significant short-term program to alleviate the private and social costs of unemployment. A more progressive compensation insurance system can decrease the private cost of unemployment and thereby the social cost of unemployment.

During the crisis regional governments in Italy (like region Emilia Romagna with regional resolutions 1036/2009 extended with resolution 2556/2009 till the end of year 2010) introduced temporary prescription charges for medical specialist visits and exams exemptions for the unemployed or redundancy fund recipients and their families. This underscores the need to improve access to health services for the unemployed and comports with our results from multivariate analysis in Section 2.1. Our evidence also indicates an increase in poverty and income inequality associated with the increase in unemployment and, a higher probability of not having access to public and private health services. The multivariate analysis shows also differences in the employment status prior to unemployment that mirror the fragmentation of the safety net in Italy. These results call for a reform of unemployment benefit in Italy to achieve a higher equality and coverage of unemployed.

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