

# Italy Inequality Report

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## Executive Summary

### *Data*

Three datasets on wealth and status distribution in Italy were analyzed: 2012 World Bank quintile and decile estimates of income, and International Labor Organization (ILO) income by occupation data for years 2014 and 2010.

### *Results*

Income data provided by the World Bank and occupational data provided by ILO tell similar narratives of a risk acceptant Italian population. The two datasets show that the Italian population is overall very risk acceptant and individuals or occupations attaining more wealth than others are on average more acceptant of risk.

### *Significance for Risk Taking and Stability*

Italy's risk acceptant population combined with weak economic performance may be fueling a wave of conservative sentiment that has allowed Russia and China to sign economic deals with Rome that worry other EU nations (Poggetti, 2018; Isachenkov, 2018). This coincides with a recent political surge in Italy's Eurosceptic population, which has occurred due to the country's weak economic performance and lack of job opportunities for future generations (Pew Research Center, 2017; Lovene, 2018).

### *Implications for US Interests*

Italy's risk acceptant population poses a risk to the US' interest of keeping Russia and China out of EU and NATO politics. Italy and the US have maintained a friendly and cooperative relationship in combatting global terrorism, natural disasters including Ebola, and joint humanitarian aid including in Libya (US Department of State, 2019). However, if Russia and China can use a friendly relationship with Italy to insert their own interests into EU politics and decision making, it will greatly threaten a wide range of joint US-EU security interests (Poggetti, 2018; Isachenkov, 2018).

### *Implications for China's Interests*

China recently signed an economic deal that lays the groundwork for eventually bringing the BRI to Italy (Poggetti, 2018). This opens a vast new array of opportunities for China as Italy is the largest economy to date to sign a BRI deal and is an EU and NATO member state. The downward projecting Italian economy and its slim economic opportunities (especially for the younger population), combined with Italy's risk acceptant population, grants China the potential for furthering its influence not just into Italy, but also into the EU (Grant, 2019).

### *Implications for Russia's Interests*

Italy's risk acceptant population presents a large potential opportunity for Russia as it has ridden a wave of Euroscepticism and weak Italian economic performance to sign multiple economic deals (Isachenkov, 2018). Isachenkov points out that Russia sees the potential for continuing this trend, as former Italian Prime Minister Giuseppe Conte acknowledged Russia as a member of Europe and said that an open

dialogue with Russia on European issues is something that should be positive for the economic and political evolution of Europe.

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## Introduction

This is a summary report on inequality in Italy compiled as part of the Aggrieved Populations project conducted in support of the 2019 Strategic Multilayer Assessment (SMA) Future of Great Power Competition and Conflict project conducted for the JS-J39.

This report provides background on why the country was chosen, relevant historical background, literature review concerning inequality in the country, synopses of empirical data sources and analyses, and a concluding section that summarizes the findings. It is not intended to provide a comprehensive analysis of inequality and grievance in the country, but to place the empirical analyses conducted on this country in their social and political context and to highlight interesting cases of inequality pertinent to risk acceptance and great power competition. The analyses focus on the measurement of population risk sensitivity as a function of measured inequality using the Arrow-Pratt measure of risk aversion, whose positive values indicate risk aversion and negative values indicate risk acceptance. Studies have shown that risk acceptance is associated with social unrest, terrorism, and other forms of social disruption (Kuznar 2007; 2019). The full explanation of the underlying method and theory is presented in the summary report, *Inequality, Risk Sensitivity and Grievance in Context: Summary of Aggrieved Populations Country Reports*, submitted as part of this SMA project. This report is intended to be supporting material to that report and presumes familiarity with it.

In order to create an inclusive and more representative set of countries, an effort was made to analyze countries from each major region of the world (Africa, Central Asia, East Asia, Europe, Latin America, the Middle East, North America, South Asia).

## Why Italy?

Italy was chosen for three reasons: 1) It is a representative nation from Europe, 2) it is exhibiting a political shift toward the right, and 3) both China and Russia are seeking influence in the country and region.

## Great Power Interests in Italy

The US has a long standing friendly bilateral relationship with Italy in economic, military, and counterterrorism cooperation. While Italy is not an especially prominent US trade partner in terms of total trade, the US is Italy's third largest destination for goods behind Germany and France (OECD, 2017). The US views Italy as a crucial partner in Europe as they share membership in many of the same organizations including the United Nations, G-7 and World Bank (US Department of State, 2019). Italy has also been a leading country in Western Europe when it comes to fighting the Islamic State and dealing with humanitarian crises (e.g., Ebola). The US and Italy's cooperative relationship and aid gives the US a strong partner in Southern Europe and the Mediterranean.

Italy has provided China with a base to launch more aggressive economic and political outreach into Europe and EU countries. In 2018, Italy became the first European Union and NATO country to sign an economic deal with China to bring its Belt and Road Initiative (BRI) to Europe (Poggetti, 2018). Poggetti points out that China was able to capitalize on Italian Eurosceptic sentiment to sign such an agreement. Italy is receptive enough of China's economic initiative to open a China task force, designed to advance economic cooperation between Rome and Beijing. While Italy has been eager to allow China to pursue its economic initiatives, other EU countries remain highly skeptical of China's intentions. This includes the

political implications of potential Chinese political leverage over Italy if it were able to accrue large amounts of Italian debt (Grant, 2019).

Russia has been increasing its interactions with Italy, vowing to develop its economic relationship further despite EU sanctions (Isachenkov, 2018). In 2018, former Italian Prime Minister Giuseppe Conte visited Moscow in order to talk to Russian President Vladimir Putin about the potential for economic and political growth between the two countries, resulting in several trade deals signed by Russian and Italian businessmen that were designed to lighten the effect of the EU Sanctions placed on Russia. Italy's friendly relations with Russia worries the rest of the EU as Prime Minister Conte advocated an openness toward Russia and whose party sees Russia as a partner to Europe (Henley, 2018). This raises an alarm for many in Europe that Russia could potentially use Italy politically, as well as economically, to hold the EU hostage on certain issues (Isachenkov, 2018). These issues mainly revolve around further Russian sanctions. Italy's acceptance of Russia could be the beginning of a trend conservative leaning populist movements take hold throughout Europe (Henley, 2018).

## Literature Review on Inequality in Italy

Italy experiences inequality issues similar to many other developed countries; for example, Italy has a large income gap that varies throughout the country by region (Usseglio, 2016). Usseglio stated that the history of Italy's regional differences in wealth attainment can be seen dating back to the founding of modern Italy during the 1800's, which was accomplished by uniting multiple regions with varied levels of development. Northern Italy was once the beneficiary of being part of two already fully developed nations in Piedmont-Sardinia and the Austrian-Hungarian Empire. Because the Northern regions were controlled by already economically stable powers, they experienced industrial development much sooner than the southern half of the peninsula. This created inequality in work opportunity so large that it is still credited as being the deciding difference between Northern Italy's wealth and Southern Italy's poverty (Usseglio, 2016).

Surveys from the Pew Research Center (2017) show that Italy is being plagued by a recent economic crisis that is shrinking the mean incomes for the middle and lower classes. Italy's past emphasis on home ownership has only exacerbated the already large of wealth gap as the wealthy that own real estate are becoming increasingly rich, and those who are already struggling to afford suitable living conditions are losing income (Lovene, 2018). This is partly due to Italy's poor economic performance which relied upon economic growth in its housing and construction market (Romei, 2015). When the economy and housing market collapsed, Italian unemployment increased drastically to more than nine percent. Another important consequence of the ailing economy is the burden of older generations having to support the younger working age population who are unable to find jobs (Lovene, 2018). For instance, more than 30% of Italy's working age people under the age of 25 are unemployed (Romei, 2019).

Another form of inequality prevalent in Italy is discrimination against minorities and women (Busetta, Campolo, & Panarello, 2018). This is partly due to Italy's growth as a corridor for human migration and immigration that is coinciding with its latest economic crisis. Newly naturalized citizens and second-generation Italian citizens are experiencing labor market discrimination and limited opportunities to advance their socioeconomic well-being. As a predominant and highly homogenous Catholic society (where more than 80% of Italians identify as Roman Catholic or a similar Christian sect, (Index Mundi, 2018)), the ethnic minorities that report the highest amount of discrimination to the EU's annual survey are non-Christian immigrants from Africa followed by immigrants from South Eastern Asia (Brioschi, 2018).

## Country-Level Measures of Inequality in Italy

Italy was initially assessed with a collection of country-level metrics. These metrics provide measures of the country's inequality compared to other nations, inequality within the country, social conditions that may be consequences of that inequality, and the prognosis for stability in the future (**Error! Reference source not found.**).

Italy is among the wealthier countries in the study, with a per capita GDP of more than \$31,000 in 2018. It also has a smaller than average informal economy. Italy also enjoys a high degree of political stability compared to the other countries in the study. Despite this, its Gini coefficient is fairly high, showing that Italy suffers from high levels of inequality. While Italy has a low probability of a mass killing, it does have the slight potential to experience influence from terrorism related activities. The mean Arrow-Pratt score for Italy is -4.83, which shows a country with a highly risk acceptant population.

Table 1. Italy: Basic Statistics on Inequality

| Measure   | Value    | Rank       | Source     |
|---|----------|------------|------------|
| Inequality Compared to Other Nations  |          |            |            |
| Per Capita GDP 2018   | \$31,997 | 27 of 187  | WB         |
| Country Measures of Inequality  |          |            |            |
| Inequality-adjusted Human Development Index (IHDI) 2018   | 0.771    | 31 of 151  | UN         |
| Gini Coefficient  | 35.0%    | 118 of 184 | WB         |
| Informal Employment as % of Total Employment  | 19.0%    | 84 of 112  | ILO        |
| Measures of State Instability   |          |            |            |
| Fragile States Index  | 43.8     | 140 of 175 | FFP        |
| Terrorism Index   | 2.736    | 69 of 160  | IEP        |
| Probability of Mass Killing   | 0.003    | 123 of 161 | EWP        |
| Risk Sensitivity  |          |            |            |
| Average Arrow-Pratt Measure   | -4.83    | 122 of 158 | This Study |
| <p>*EWP – Early Warning Project, FFP – Fund for Peace, IEP – Institute for Economics and Peace, ILO – International Labor Organization, UN – United Nations, WB – World Bank</p> <p>-The Inequality-adjusted Human Development Index (IHDI) is a UN measure of well-being and is a scale based on per capita GDP, life expectancy and education levels of the population.</p> <p>- The Fragile States Index is based on twelve conflict risk that include security apparatus, factionalized elites, group grievance, economy, economic inequality, human flight and brain drain, public services, state legitimacy, human rights and rule of law, demographic pressure, refugees and IDPs, and external interventions. The potential range of the index is zero (no fragility) to 120 total fragility).</p> <p>- The Terrorism Index scores each country on a scale from 0 to 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism.</p> |          |            |            |

## Prognosis for Change to 2029

Italy's combination of increasing wealth gap and added burden on the elderly to support the young is an increasing trend that will likely continue, since Italy has not been able to alleviate its economic troubles (Pew Research Center, 2017 & Lovene, 2018). Italy's economic issues have led to the assertion of populist movement voices into Italian politics (Henley, 2018). The economic troubles led former Prime Minister Conte to sign economic deals with Russian President Vladimir Putin to open up economic possibilities for Russia amid sanctions. The deal with China that laid the ground work for bringing the BRI could potentially

generate jobs boosting Italy's struggling employment rate and overall economic performance (Poggetti, 2018). Italy's most recent governmental collapse and former Prime Minister Conte's resignation during August of 2019 places the future of Italy's economic and political structure in question (Balmer & Jones, 2019). Italy's risk acceptant population and its economic issues could expand into wider felt civil protests and movements especially if younger generations continue to see their employment opportunities limited and the government remains in a state of transition.

## Empirical Data on Inequality in Italy

### Dataset 1: 2016 Italy World Bank Quintile Data

The World Bank provides data on lowest and highest decile, and quintiles of percentage of income or consumption.<sup>1</sup> These data are used to calculate their Gini coefficients. While not exactly measuring the actual income, the percentage of overall income provides an approximation. The Italian data were gathered in 2016. **Error! Reference source not found.** presents the original data and the fitted distribution curve from which the Arrow-Pratt risk sensitivity measures will be derived, as well as the Arrow-Pratt measures of risk sensitivity.

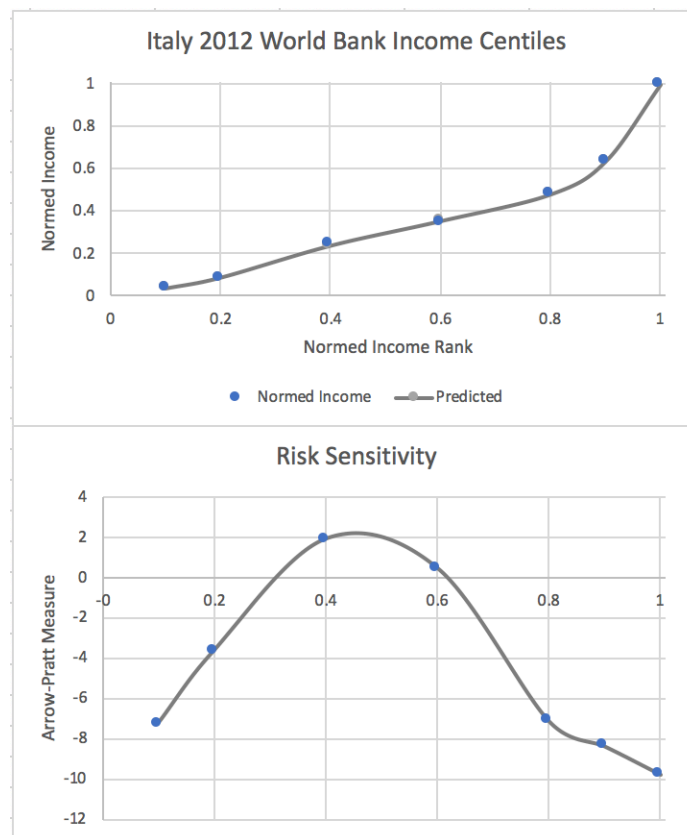


Figure 1: Distribution of Income, World Bank Quintiles Italy 2012 and associated Risk Sensitivity.

<sup>1</sup> Data drawn from: <http://wdi.worldbank.org/table/1.3>

**Summary Dataset 1: 2016 Italy World Bank Quintile Data**

The data provided by the World Bank shows a risk acceptant population. Italy's mean Arrow-Pratt score is -4.83. The risk sensitivity data shows a risk acceptant population in which those earning the highest incomes are the most risk acceptant. Only a small section of income earners in Italy are risk averse. They can be found at the 30<sup>th</sup> to 60<sup>th</sup> percentiles of data.

**Dataset 2: ILO Italy 2014 Income by Occupation**

Data provided by ILO shows an occupational breakdown of Italy, giving the number of employees and their average income in each occupation. Data was provided by ILO for 2014 and 2010.

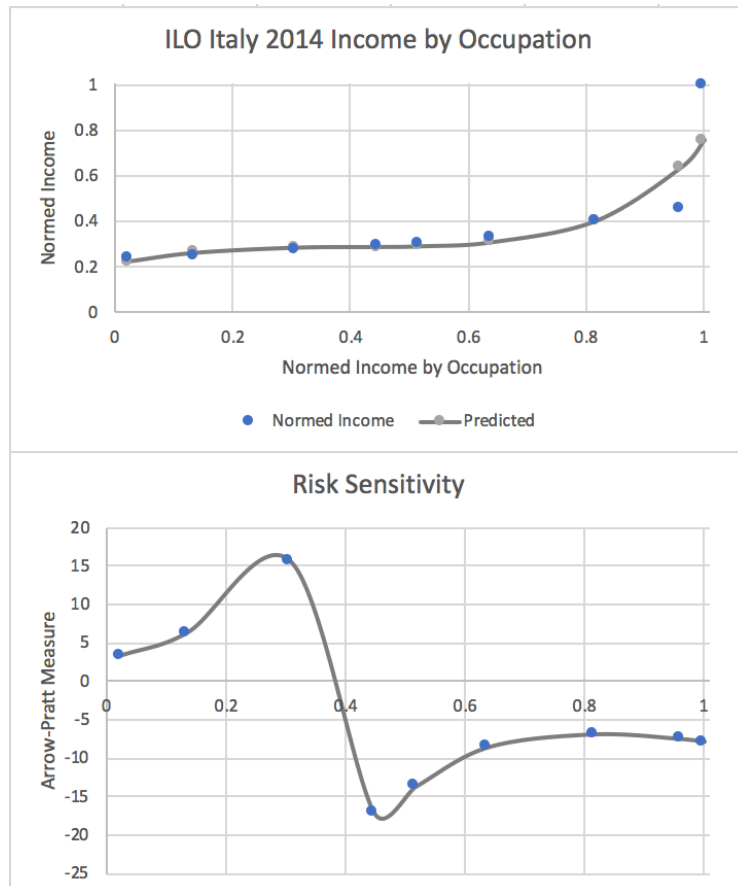


Figure 2. ILO Italy 2014 Income by Occupation and associated Risk Sensitivity

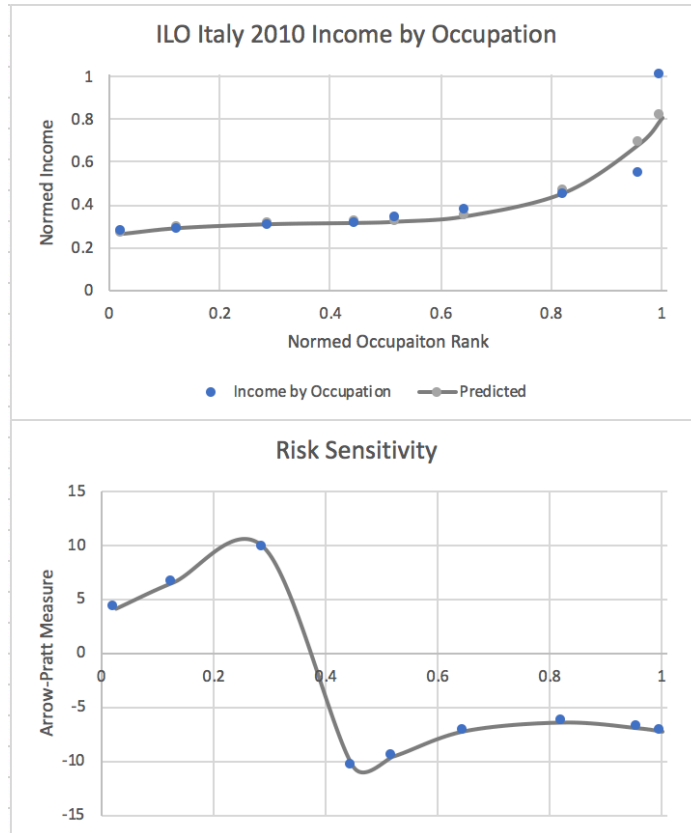
**Summary Dataset 2: ILO Italy 2014 Income by Occupation**

The occupational data provided by ILO shows a population that is risk acceptant. The mean Arrow-Pratt score is -4.09, which signifies a highly risk acceptant population compared to many countries' mean Arrow-Pratt score when measured from ILO data. The occupations that earn the least are risk averse. The most risk averse populations can be found around the 30<sup>th</sup> percentile and are agriculture and elementary occupations. The most risk acceptant populations can be found at the 45<sup>th</sup> percentile and include, in ascending order, craftsmen followed by higher income occupations categorized as professionals and managers.



*Dataset 3: ILO Italy 2010 Income by Occupation*

ILO data was provided for 2010 as well in order to give the study two separate snap shots of Italian risk acceptance in time. The data was collected with the same methodology and uses the same categorization as it did in 2014.



*Figure 3. ILO Italy 2010 Income by Occupation and associated Risk Sensitivity*

**Summary Dataset 3: ILO Italy 2010 Income by Occupation**

As with the 2014 data, the 2010 data also shows a risk acceptant population based on income by occupation. The mean Arrow-Pratt score is -3.03. Furthermore, over the four years from 2010 to 2014 Italy's population became more risk acceptant with a decrease in its Arrow-Pratt score of 1.16. This indicates a shift in Italy toward increasingly risk acceptant behavior. The most risk averse occupations in 2010 were still agriculture and elementary occupations, while the most risk acceptant populations are clerical workers and technicians followed by occupations making higher incomes, such as professionals and managers.

## Findings on Inequality in Italy

### *Relevance to Instability and Social Cleavages*

Economic inequality in Italy has the potential to ignite its risk accepting population to action, spreading civil strife and social unrest through the country. Italy's middle class is shrinking, while those comprising the country's top earners are becoming wealthier (Pew Research Center, 2017; Lovene, 2018). This is creating a problematic trend throughout the country where older Italians have to financially support younger generations for longer periods of time (Usseglio, 2016; Lovene, 2018). This pattern is stronger in the poorer southern region. While Italy still has a large majority of ethnic Italian and Roman Catholic citizens, it is increasingly targeted as a destination by immigrants leading to ethnic and racial discrimination, mostly surrounding employment opportunities (Busetta, Campolo, & Panarello, 2018).

### *Opportunities and Pitfalls for the US and Adversaries*

The potential political instability in Italy is a threat to US security interests not only in Italy, but in the rest of the EU. Italy and the US have maintained a friendly, peaceful, and cooperative relationship since World War II (US Department of State, 2019). It also has been an active ally in anti-terrorism activities and fighting humanitarian crises such as the Ebola outbreak. Despite its friendly and longstanding alliance with the US, Italy's risk acceptant population and the poor economic conditions throughout the country have created the conditions for Italy's seeking increased economic cooperation with China and Russia, despite security concerns from many of its EU counterparts (Poggetti, 2018; Isachenkov, 2018).

### *China*

The instability and risk acceptant behavior in Italy is an opportunity for China, possibly motivating Italy to sign economic deals furthering China's Belt and Road Initiative into Italy and further into Europe, as Italy seeks increased revenues in an attempt to gain wealth (Poggetti, 2018). Signing economic deals to include Italy into the BRI was an important economic and political victory for China because Italy is a potential entrance point for Chinese influence into the EU and is also the largest economy to join its BRI to this point (Grant, 2019).

### *Russia*

Like China, Russia has profited from Italy's instability and risk acceptant nature. Russia has used Italy's underperforming economy and rise in Eurosceptic politicians to sign a sequence of economic deals (Isachenkov, 2018). More important than economic agreement is Italy's support of Russia as part of Europe (Henley, 2018). The US and EU fear that Russia will use its newfound influence in Italy to hold the EU hostage on certain issues including sanctions, which the EU is uniquely positioned to use in order to affect Russia since it accounts for the majority of Russia's trade. Russia is seeking to ride a flow of conservative sentiment in Italy and Austria to aggressively pursue its political and economic goals.

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