

# Chapter 8: The Middle Class in Italy

**Rosamaria Bitetti & Federico Morganti**

---

This chapter describes the development of income, equality and social mobility in the perspective of the economic history of Italy, and links it with the cultural dimension of how the Italian middle class perceives itself, its problems and the political market.

Aggregate statistics about Italy—as can be seen in the overview of Chapter 2—show that the middle class has statistically held its size and income in the last decade. However, the Great Recession brought dissatisfaction and a diffuse feeling of decline to the Italian middle class, which fuelled the rise of populist parties and a populist shift in the public discourse of mainstream parties. This discontent follows more than a decade of economic stagnation, which affected the likelihood of new generations becoming middle class.

The long period of Italian stagnation covers a period of unsustainable growth, led by public expenditure, which created illusory confidence in unsustainable living standards of the middle class. It replaced civic virtues of dynamism and mobility by privileges and a longing for the “golden age” of high public spending, which was the very cause of its stagnation. The price of that expansionary period has been paid by younger generations, who are unable to join the middle class and now look at their future with justified concern.

Younger generations face a severe reduction in income and limited access to the labour market. The refugee crisis and increased economic migration also created strong tensions that were quickly harnessed and driven by a surge of new populist movements.

In the Italian context, the middle class is at a crossroads: it either should take charge of its social entrepreneurial role, and support a political class able to make bold choices, or should indulge itself along the road of its negative self-perception following populist movements. If obtaining growth is desirable, then large and encompassing reforms are required to simplify the labour market and increase competition<sup>1</sup>.

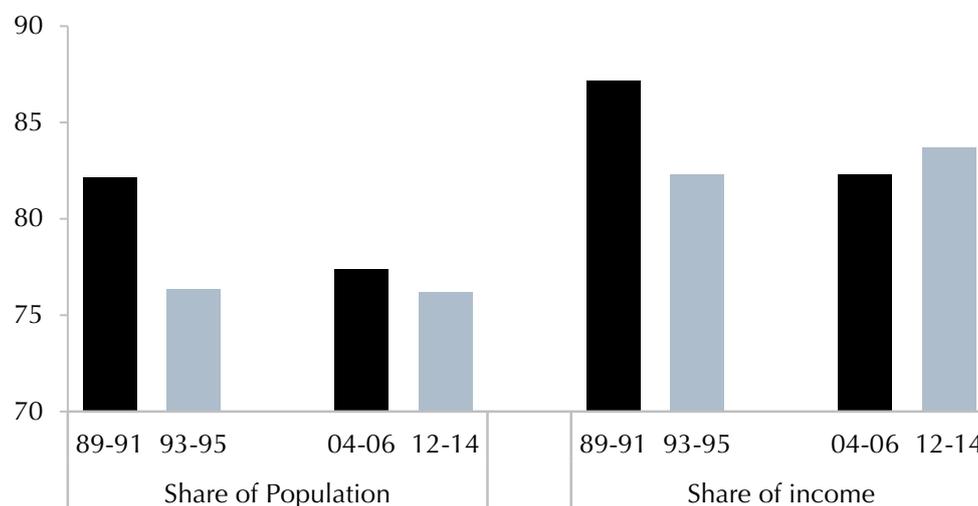
## 1. The income perspective

Using data collected by the Bank of Italy in “Indagine sui bilanci delle famiglie italiane” (IBF, one of the oldest data collection on income and social conditions of households dating over 50 years), we assess the situation of the Italian middle class

---

<sup>1</sup> Bitetti, R. “Austerity is not enough”, in Stagnaro, C. *Index of Liberalizations 2015*, IBL Libri, 2016 pp 27-46

over the longer term<sup>2</sup>. Comparing the aftermath of the recession of the 1990s with the previous years (Figure 1), we see that the population share of the middle decreased by 6%, and the equivalent disposable income owned by middle class declined by 5%. Comparing the periods before and after the Great Recession, we observe not only that the middle class held its size, but also that its share of the income grew.



**Figure 1: Middle-class share and income around recessions**

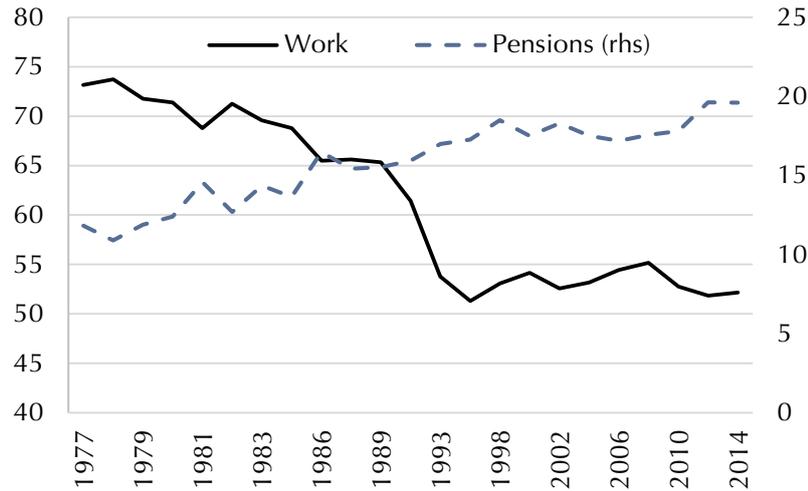
Source: Bank of Italy, IBF

The joint decline in population and income share of the middle class in the 1990s is a reflection of the budgetary reforms and cuts in government expenditures. After a declining trend, also the Gini index sharply increased after the recession of 1992-1993. The lower income class increased from 6 to 21% and the disposable income of the high-income class increased.

The global financial crisis of 2008/2009 and the subsequent sovereign debt crisis reduced the overall income of the Italian population, but had limited effect on overall inequalities<sup>3</sup>. The effect was different because the composition of the middle class, its source of income and its exposure to market risk fluctuations changed substantially. Reflecting a general trend in the composition of households' source of income (Figure 2), the relative weight of pensions became more and more important with time, while the households receiving income from work declined.

<sup>2</sup> Banca d'Italia, "Indagine sui bilanci delle famiglie italiane". English version available at: <http://www.bancaditalia.it/pubblicazioni/indagine-famiglie/>

<sup>3</sup> Banca d'Italia, "I bilanci delle famiglie italiane: uno sguardo di lungo periodo", in *Relazione Annuale 2015*.



**Figure 2: Share of households by source of income**

Work on the primary axis, Pensions on the secondary axis. Source: Bank of Italy, IBF

Italian productivity is not growing fast enough to accommodate the expectations of new generations. Total factor productivity, which grew at an average rate of 1.4% in the period between 1974 and 1993, grew less than 0.3% on average in the following decades, and made recovery in the Great Recession particularly difficult.

The economic stagnation affected mostly families whose income came from labour: the employed first and then also the self-employed. The impact was especially strong for those trying to enter the labour market. On average, the price of both the long-term stagnation and the crisis was paid by the young people, who face not only an unemployment rate almost double the EU average, but also temporary occupations and a significant reduction of income.

The problems of the middle class are, in Italy, mostly related to limited economic growth and poor dynamism, with a strong intergenerational imbalance. While the older-generation middle class is still receiving a great deal from public welfare, they are seeing the world collapse as their children—now grown-up—are paying the consequences.

## 2. Non-income-related perspectives

### **The affordability of housing**

According to Ingaramo & Sabatino,<sup>4</sup> the Italian middle class experienced from the early '70s to the 1990s a significant rise in rental prices (+63% by 1996), which was not paralleled by an equivalent increase in income levels. The social unrest this provoked resulted in a further call for government regulation in the rental market.

From 1977 to 2010, the share of house-owning families went from slightly above 50% to 72%, an increase in homeownership that benefitted especially older generations (from 60 to 80%). In the same period, the share of families indebted for buying or refurbishing a house increased from 4 to 11%. Also, the total value of debt compared to the value of the housing stock increased: while the latter doubled, the former tripled<sup>5</sup>.

### **Family stress**

According to the 2017 Annual Report issued by ISTAT (the national statistical agency), the feeling of class identity is lost for the lower middle class, and for highly educated young people with temporary jobs. Only those households whose income comes mostly from public jobs or generous pensions are still able to fit the traditional definitions of middle class— but they have to sustain an extended family, since almost 9 million of Italians under 34 years of age still live with their parents<sup>6</sup>.

### **The labour market**

The Italian labour market has always been heavily regulated, while being characterised by a strong dualism between fiercely protected contracts and “atypical” contracts, which disproportionately concern youth, women and non-skilled workers. The market is further characterised by an absence of general policies for the labour market and by consistent recourse to subsidies intended to circumvent the bankruptcy of specific companies, thus preserving the inefficient structure of firms, rather than employees' income. This dualism and supply-oriented unemployment policies have only minimally been tackled by policies that were not structural, and thus only had — at best — a temporary effect.

---

<sup>4</sup> Ingaramo, L. & Sabatino, S. (2009). *Housing Affordability in Italy: An Analysis to Work out Joint Strategies of Intervention*. In: ISA - International Housing Conference - Housing Assets Housing People, GLASGOW, 1-4/09/2012.

<sup>5</sup> Cfr. I bilanci delle famiglie italiane nell'anno 2014, in Supplementi al Bollettino Statistico, 64, 2015.

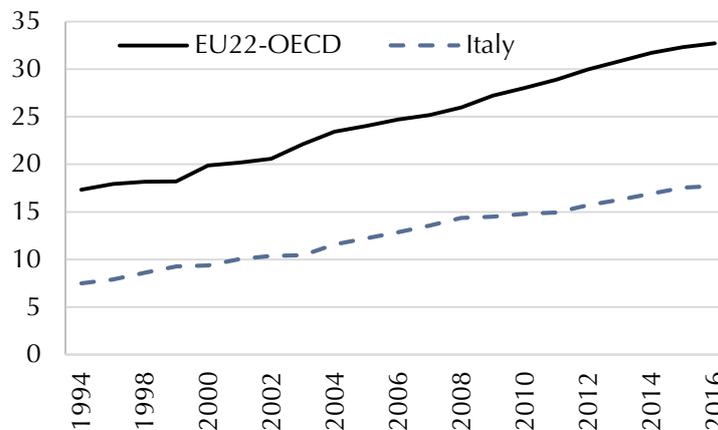
<sup>6</sup> ISTAT, *Rapporto Annuale 2017*, <https://www.istat.it/it/archivio/199318> English summary available here: <https://www.istat.it/en/archive/201296>

### Social mobility

In the last decades, the Italian population has become better educated, and this was initially well absorbed by the Italian economy. By the 1980s, Italian growth benefited from the alphabetisation process: in the aftermath of the Second World War, about 12% of the population had no education at all– but this declined to 4% by the 1970s. By the 1990s there was a significant increase in secondary and technical education, although tertiary education became prevalent only after 1993. However, as the levels of educational attainment rose, the return on education started to decline. Banca d'Italia suggests that tertiary education was not a major driver of economic growth, since increases of productivity were higher in those “made in Italy” clusters characterised by lower levels of education attainment<sup>7</sup>.

The number of graduates with tertiary education has more than doubled in the past 20 years; see Figure 3. While still low, it is at least comparable with international standards.

Female participation in the labour force increased significantly, despite being one of the lowest rates among developed countries. The Italian economic system, unfortunately, seemed unable to absorb this new supply of human capital, a situation worsened by the Great Recession.



**Figure 3: Educational attainment**

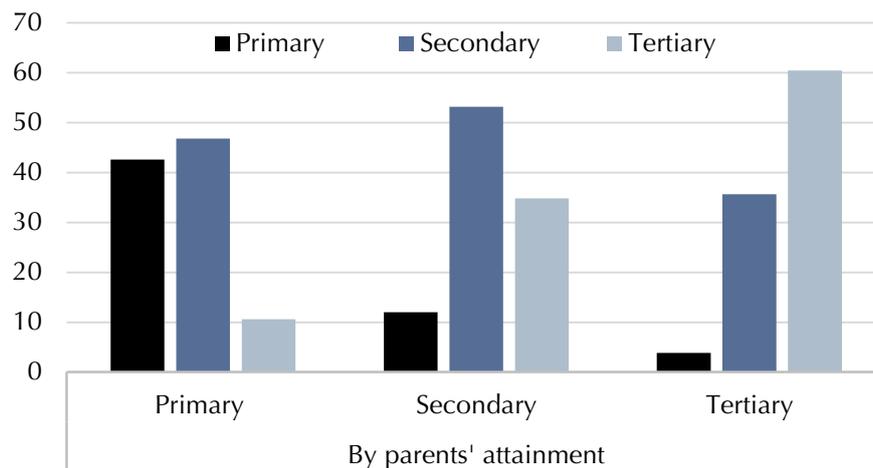
The percentage of the Italian population (25-64 yrs.) with a tertiary degree, compared to the EU-average (the 22 members of the OECD) Source: OECD, educational attainment and labour-force status.

Among those who attain the highest levels of education, labour prospects are far from optimal: in the last decade, increasing numbers of highly qualified researchers, engineers and medical doctors have moved to other European countries. Brain-drain is not a dead loss *per se*, since the brightest minds are always going to be travelling

<sup>7</sup> Banca d'Italia, “Istruzione e formazione nel sistema produttivo”, in *Relazione Annuale 2011*, p. 128.

toward the frontier of their discipline; but it becomes a problem when the highly qualified migration is not compensated with the ability to attract human capital. Italy invests only 1.3% of GDP in Research and Development (2015); by way of comparison, the EU-28 average investment is 2.3%, Germany invests 2.9%, France 2.3% and Austria 3.7%. While this difference is also due to low public investment (0.18% compared to the EU-28 average of 0.24%), it is mostly due to low investments in R&D from a fragmented and frail business sector (investing only 0.38% compared to 0.47% in the EU-28)<sup>8</sup>.

From the perspective of social mobility, the Italian educational system is particularly inefficient: both in general terms (producing results that are often below average if compared with international standardised tests) and in terms of inequality and inclusion. Household income and education are strong predictors of the educational outcome of children, see Figure 4. While this is a common situation in most countries, it is worse in Italy. An early choice for an educational track (i.e., at age 14) quite often limits the future level of education and career path.



**Figure 4: Educational attainment by parental attainment**

Source: Istat, Rilevazione sulle forze di lavoro

Teoldi (2013) measures the wage difference between the average population and the 30-39 year-old age group—those who have finished education and training and who, being fully employable and carriers of increased human capital accumulation, should thus be enjoying a premium in a flourishing economy. Those born in 1947, and thus entering their thirties in 1977, used to earn about 10% more than the average salary. This premium was already reduced to 3% for those in their 30s in 1984, and is close to zero for those joining the age group in 1991. After that, this gap collapses:

<sup>8</sup> Eurostat, Research and development expenditure, by sectors of performance, % of GDP, code: tsc00001

those born in 1980 tend to earn, on average, 12% less than their counterparts in the general population<sup>9</sup>.

### **Generational issues**

Before the recession of 1992-93, 65% of the Italian population lived in families whose income came mostly (about two-thirds) from labour; in 1995, this was only around 50%. The proportion increased to 55% by 2008, only to collapse again because of the Great Recession. On the other hand, the share of families mainly living on pension income grew constantly— from 12% in 1997 to 18% in 2014. It is still growing.

Since the mid-1990s, the gap between the disposable income of families whose breadwinner is an employed worker and those whose breadwinner is self-employed grew (while it declined after the Great Recession), and both groups now have a lower welfare level compared to families whose income comes from pensions.

The structure of the Italian economy and welfare system features a significant generational divide. Older workers still have strong legal protection for their jobs and enjoy a generous welfare system, while younger workers have little job protection and can expect far lower retirement benefits in the future. Thus, age plays an important role, leading to strong intergenerational imbalances in an institutional framework that focuses more on protecting the insiders than on creating opportunities for newcomers.

The pension system has been reformed many times through the years, but is still very expensive for the Italian economy, taking the lion's share of public expenditure. Italy spends 15.8% of GDP in pensions (the OECD average is 7.9%<sup>10</sup>). Over 77% of public social spending is for people older than 65 years. Only 3% of total expenditure ends up with families and children (Denmark, for instance, spends 8.3% and Ireland 6.6%) and only 2.4% goes to unemployment policies (4% in Germany, 4.6% in Spain, 6.3% in Ireland)<sup>11</sup>. Still, Italy has a total public expenditure, tax levels and pension contribution rates that exceed the EU average.

Younger generations have reacted to a lack of opportunities, employment and housing by delaying the age when they leave their family. Some years ago, a prominent member of government called them “Bamboccioni” (big babies): those who prefer to stay home rather than build their own family. Between the 80s and the beginning of the millennium, the share of the population aged 25-34 living with their parents doubled, reaching 50% in the aftermath of the financial crisis (30% for those aged 30-34). Those who stayed home benefited from the higher wealth from their

---

<sup>9</sup> Teoldi, F., “La crisi pagata dai trentenni”, *La Voce*, 2013

<http://www.lavoce.info/archives/14844/chi-paga-la-crisi-30-40-anni/>

<sup>10</sup> OECD, Pensions at a glance 2015, <http://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm>

<sup>11</sup> Balduzzi, G., “Tutto agli anziani, niente ai giovani: la spesa sociale italiana è la più ingiusta d’Europa”, *Linkiesta*, 11 July 2017, <http://www.linkiesta.it/it/article/2017/07/11/tutto-agli-anziani-niente-ai-giovani-la-spesa-sociale-italiana-e-la-pi/34830/>

families, compared to those who built a family. Today in Italy the highest predictor of poverty in a family is the age of the breadwinner: for the under-30s, one family out of three is low-income—in the 80s it used to be one family out of ten<sup>12</sup>.

### **Regional differences**

The geographical distribution of households follows a traditional divide between North and South, with an above-average presence of high-income groups in the Centre-North and an overrepresentation of fragile, at-risk-of-poverty groups in the South.

Istat 2017 attempts to deepen the stratification of the middle class by providing new classifications based on income, working status and age. They find a large overlap between the traditional classification of middle class and the groups of “Clerks’ households” and “Retired blue-collar workers”. Traditional provincial households largely overlap with the lower middle class, while the “silver pension” group (whose main breadwinner is retired from work with a generous pension) is in the upper-middle class. Data about urbanisation show that there is not a single middle class, but several— and each distributed spatially according to different preferences for more or less urbanisation.

### **Household composition**

In the 1980s, 80% of middle-class families had breadwinners who were employed or self-employed, and thus more exposed to cyclical fluctuations. Today, working families represent only 70% of middle class, while income from pensions, which is isolated from the economic situation in the Italian pension system, has increased up to 20%<sup>13</sup>. This means that the type of households that are part of the middle class, rather than their size and income, has changed. It also explains why the middle class perceives itself as declining, and why it seems to lack the entrepreneurial spirit needed to assess and change this situation.

Family choices of the average Italian reflect pessimism about the future. The fertility rate is very low (1.35), 27% of Italian families have no children, and 20% have only one child. Looking at the groups that can be considered middle- and upper-middle class (according to new Istat stratification), we see that the main demographic characteristic of the middle class is old age. All but “traditional provincial families” have, on average, one child or no children at all. Table 1 shows the average age and family size of households in middle-class groups.

---

<sup>12</sup> Banca d’Italia, “I bilanci delle famiglie italiane: uno sguardo di lungo periodo”, in *Relazione Annuale* 2015.

<sup>13</sup> Banca d’Italia, “I bilanci delle famiglie italiane: uno sguardo di lungo periodo”, in *Relazione Annuale* 2015.

**Table 1: Household structure in middle-class groups**Source: Istat, Rilevazione sulle forze di lavoro, in *Rapporto Annuale 2017*

	Average age	Family size
Traditional provincial households	54	4.3
Retired blue-collar households	72	1.8
Clerks' households	47	2.7
Silver pensioners	64	2.2

### 3. Household perceptions

While Italy's middle class has not shrunk significantly in the last decade (it remains around 60% of the population; see the overview in Chapter 2), the way Italians perceive their socioeconomic status has been severely affected by the Great Recession. According to Ilvo Diamanti, there is a strong feeling in Italy that the social elevator is no longer rising— and that perception of reality “is as difficult to change as reality itself”<sup>14</sup>.

In 2016, the Observatory of Human Capital from Demos & Pi surveyed a representative sample of Italians, asking them: “To which social class, in your opinion, does your family belong today?” Results are shown in Figure 5. The share of Italians perceiving themselves as middle class declined significantly after the financial crisis of 2008, just to be at a similarly low level during the European crisis of 2011, and to further decline in 2016, despite a small recovery of the Italian economy<sup>15</sup>.

This collapse of middle-class self-perception in the last ten years is a process opposite to, but strictly interrelated with, what happened to the Italian middle class in the previous decades—which the Italian Sociologist De Rita defined as “cetomedizzazione”<sup>16</sup>. Roughly translatable as “middleclassization”, this was a process that drove the emergence of a middle class proud of its status and lifestyle without being “really bourgeois”. Much sociological literature assigns to the bourgeoisie the task of entrepreneurial change, in terms both of economic innovation and production of a political class apt to manage change. In Italy, this was clearly not the case.

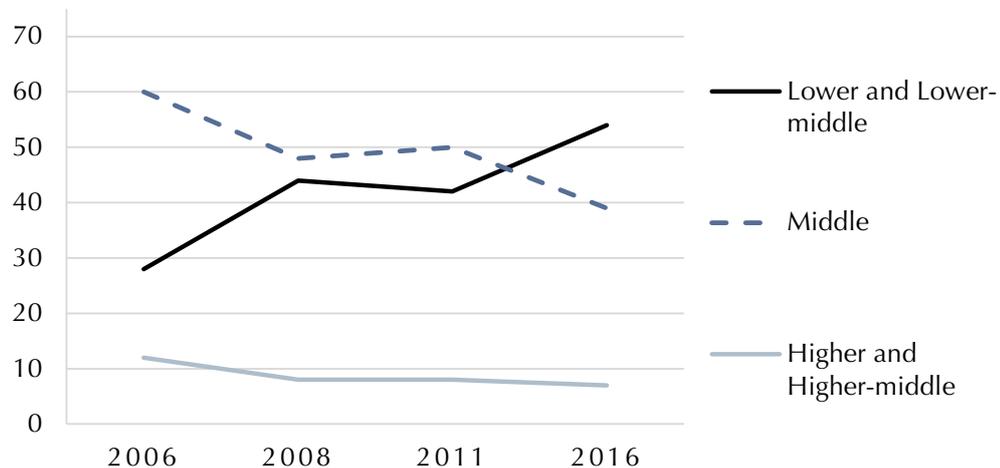
Over the last decades, the wealth of the Italian middle class was built mostly on government public expenses, rather than entrepreneurship and innovation. Democrazia Cristiana—a centre-right conservative party that ruled over Italy for nearly half a century, ruling out more extreme parties—built up their consensus by distributing privileges to interest groups, such as cooperatives and unions, and hiring

<sup>14</sup> Ilvo Diamanti, “L'ascensore sociale funziona al contrario: ora il ceto medio si sente classe operaia”, *La Repubblica*, 25 May 2015.

<sup>15</sup> Data from the report “Osservatorio Capitale Sociale”, Demos & Pi, available at <http://www.demos.it/osservatorio.php>

<sup>16</sup> De Rita, G. & Galdo A., *L'eclissi della borghesia*, Bari: Laterza, 2011.

an unsustainable number of workers in the public sector. This led to a general increase of welfare, with the unfortunate effect of impeding more sustainable, long-term growth. As a result, the Italian middle class at present is mostly made of people with public jobs—jobs shielded from competition—and retired people.



**Figure 5: Perceived class identity over time**

Source: Demos & Pi, Osservatorio Capitale Sociale

According to De Rita, the fact that political elites created the illusion of wealth from public spending (in order to gain consensus) prevented the emergence of a true bourgeoisie that was able to produce innovation in the economic as well as the political system. This lack of leadership was destined to stagnate the country for many decades.

The current average middle-class voter feels betrayed by the government, which was unable to maintain the promises of continuously improved standards of living, made during the expansionary years of public debt. Later on, the government, instead of enjoying the benefits from joining the EU for restructuring the Italian economy, denied the severity of the problems and dragged them in the next century.

Yet *cetomedizzazione*, i.e. a process of becoming middle class without becoming a dynamic bourgeoisie, was unsustainable, and today we face the opposite process of *proletarianisation*. Those who would normally be filed under “middle class” (regarding job occupation, income, education, etc.) perceive themselves now to be lower class (i.e. as a sort of new proletariat).

In the aftermath of the crisis, the average Italian voter started believing that the government—while far from being fiscally responsible—was in fact imposing unnecessarily austere policies, and irresponsibly impoverishing the new generations. They resented that there were no more resources available and the fact, obvious as it may be, that they could no longer live above their own possibilities. Voters blamed

austerity for their dire economic conditions, while austerity was actually the effect (not the cause) of years of reckless expansion by debit now presenting the bill.

Younger generations have a very clear perception of how serious the situation is, for they simply cannot start and raise a family. Many of them are outside the job market, and still rely on their families to make it to the end of the month. Their families, in turn, blame the government for not providing a fulfilling life to their children. Their parents grew up with the myth of “*posto fisso*” (i.e. a tenure job either in the public and private sector, where being fired is so costly for a firm to be practically impossible). The cultural attitude of “*posto fisso*” is so deeply rooted that they are now expecting for their children the very privileges they consider so obvious. Their children, in other words, are *entitled* to those privileges, the absence of which is perceived as theft.

Indeed, the economic conditions enjoyed by previous generations are not available today. Welfare has become less generous, and the prospects for a satisfactory job are few, both in terms of income and in terms of over-qualification—the chance to find a job that matches the degrees they have earned with difficulty (and most of their parents did not have or need in order to attain job security).

As a result, while on average the economic conditions of the middle class are not worse than they used to be, comparison with the previous generation creates an illusion of great poverty.

#### 4. Political representation

As for the political landscape, the post-crisis era saw the growth of populist movements, such as 5 Stars Movement, which now heads surveys about 2018 political elections, and already governs several major cities. In addition, Lega Nord, which originally was a party pro-fiscal responsibility and federalism, became increasingly populist, suggesting nationalistic economic policies, the exit from the Eurozone, and often contributing with xenophobic remarks to the public discussion.

Traditionally, the average middle-class Italian voter was the “responsible father of the family” looking for respectable elites; their electoral choices could be placed in the “median” area of a spatial model throughout all the transformations of the Italian political system.

Ballarino et al. (2009) assesses the relationship between vote and social classes in Italy through the decades 1972-2006, noting that there is no strong relationship between social class and parties—at least not in a traditional way. The two mainstream parties, DC, the Christian Democrats, as well as PSI, the Socialists, used to be “inter-class” parties, meaning there was no strict correspondence between social status and vote—MSI (far right) and the communist party, on the other hand, were more attractive to working class and low income, but also to the high income and high

education groups. When the political landscape changed– both in terms of electoral and party system– a similar inter-classist structure emerged, with white-collar and urban middle-class equally divided among the two mainstream parties, and lower middle class as well as working class voting for more extreme parties<sup>17</sup>.

Within this pattern of voting behaviour, the fact that the middle class sees itself in decline and going through a process of becoming “proletarian”, is dangerous– since it is likely to provoke further shifts toward the extremes of the political orientation. And this is a rather accurate description of current trends.

This changing attitude is described by the political philosopher Jason Brennan as a movement from ‘hobbits’ to ‘hooligans’. Drawing from a wide range of empirical literature on voters’ knowledge and behaviour, Brennan divides the electorate into three groups: hobbits, hooligans and Vulcans. Hobbits are those who mostly do not care about politics, and prefer to go on with their ordinary life without giving much thought to the currently debated issues. Hooligans are those whose interest in politics closely resembles supporting a football team: they are emotionally involved, actively engaged and very informed. Unfortunately, because of their emotional involvement, they process information in a more biased way, and refute data and arguments supporting views different from their own. Finally, Vulcans are those who never adhere to an opinion or pick a side without having accurately weighed all the proofs and arguments, and they are more than willing to change their mind if evidence and logic so require<sup>18</sup>. Democracy is portrayed as the rule of Vulcans, but voters are mostly hobbits or hooligans.

In Brennan’s view, the rise of populist parties is due to the increase in the proportion of hooligans. In Italy, the rest of the voters could be seen as ‘hobbits’: absorbed by their daily life, with little or no interest in politics. This applied to the Italian middle class as well, which is partly the reason why De Rita criticised them: for being middle class without being bourgeois, unable to produce a ruling class.

Today, hobbits are becoming hooligans: they are more interested in politics, but also more biased. They mostly get their information from meme and political declarations from their favourite party, read “party-friendly” press, and live in a social-media bubble which tends to reinforce their biases. Many believe the Italian economy would benefit from leaving the single currency and restoring the Lira. Only 29% of Italians in 2016 trusted the European Union Institutions, with trust declining by 22 %-points since 2010. The percentage of Italians claiming that the country should leave the Eurozone was 33% in 2015 and 34% in 2016: a change of opinion that appears to be positively correlated with the rise in popularity of populist parties.

---

<sup>17</sup> Ballarino, G., Schadee, H., Vezzoni, C., “Classe sociale e voto in Italia, 1972-2006” *Rivista italiana di scienza politica*, vol. 2, 2009.

<sup>18</sup> Brennan, J., *Against Democracy*, Princeton University Press, 2016.

The Italian electorate is used to living with contradictions: in 2016, only 69% of Italians thought that democracy is the best form of government— declining from 74% in 2004— with a perplexing 17% considering an autocratic option as viable, and 14% indifferent between autocracy and democracy. But 48% thinks that democracy could work without a basic institution as political parties. The percentage of citizens satisfied with public schools and healthcare in 2016 amounted to 42%, while those satisfied with the private alternative of the same services were 46%. Satisfaction is even lower for public transportation (26%) and railroads (28%). However, only 15% of the surveyed Italians were willing to accept a larger role for private systems in sectors where the public did not meet their needs. 40% of Italians in 2016 considered migrants to be a danger for the country, while only 33% believed that people in general could be trusted<sup>19</sup>.

## 5. Globalisation, technology and migration

The lack of investment in R&D and the inability to attract foreign human capital both reflect an economic system that fails to meet the challenges of global competition and the opportunities of automation. It is a society that fails to provide economic opportunities to its younger members.

Immigration is an issue deeply felt by the Italian low-income class, and by that portion of the middle class which perceive themselves as lower class. Based on a yearly observatory, “Gli italiani e lo stato”, from 2015 to 2016 the number of citizens answering “I believe that immigrants are a danger for public order and people’s safety” rose from 28% to 40%<sup>20</sup>. Clearly, these results reflect the migrant crisis in the Mediterranean: Italy is one of the countries receiving the highest number of migrants.

There is a political margin in Brussels<sup>21</sup> for tackling this— for Italians— pressing issue; yet, the Italian political class is mostly using immigration as a scarecrow to polarise the vote. Public expenditures on migrants are routinely debated as a major component of public spending: an issue framed, often violently, as “stealing” from Italian citizens and stripping them of their right to welfare. Italy does not excel at limiting public expenditures, and apparently migration is no exception: the Italian government has estimated that the public expense— net of EU contributions— devolved to the refugee

---

<sup>19</sup> Data from the yearly report “Gli Italiani e lo Stato”, Demos & Pi; Osservatorio di Pavia; Fondazione Unipolis, available at <http://www.demos.it/rapporto.php>.

<sup>20</sup> Demos & Pi, “Gli Italiani e lo Stato”, 2016.

<sup>21</sup> European Commission - Speech, *President Jean-Claude Juncker’s State of the Union Address 2017*, Brussels, 13 September 2017, [http://europa.eu/rapid/press-release\\_SPEECH-17-3165\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm).

crisis will amount to 42 billion euros in 2017<sup>22</sup>. This is 0.5% of the €830 billion of the Italian government budget.

The refugee crisis hides the fact that Italy is not good at attracting qualified migrants. Economically speaking, immigration could benefit Italy, with its low birth rate and a welfare system skewed towards older generations. As such, Italy should be working closely with the European Union for the opening of legal pathways, and should engage in brain-competition regional policies—for instance, by making it easier for skilled migrants to join the European economy with a Blue Card<sup>23</sup>. Such immigration could also help by injecting in the existing middle-class a taste of migrants' entrepreneurial spirit, a sense of risk-seeking and the value of hard work.

Another potential benefit of immigration is the positive effect on rent-seeking dynamics and unsustainable public expenditures. Alesina and Glaeser (2004) suggest that increased heterogeneity in the population (such as the American population) reduces public expenditure because the existing population will be less willing to have a large welfare state once migrants, who typically display a lower-income, are entitled to more benefits<sup>24</sup>. Razin, Sadka and Swagel (2002) study 11 European countries from 1974 to 1992 with a median voter model, and find that a higher share of low-education immigrants in the population leads to lower social transfers and lower rates of taxation on labour<sup>25</sup>. Thus, immigration can be a driver for reforms in public spending, welfare and the labour market.

Globalisation and technological innovation will require better education and a more flexible labour market. But most of all, they will require a more competitive market. Structural reforms will be needed to meet the new requirements of the job market.

One of these changes will very likely concern the fixed nature of the job, which has been enshrined in the Italian middle-class culture during decades of public sector growth. The culture of the "posto fisso" (fixed assignment) is still widespread among the population: any deviation is perceived as a form of injustice, if not exploitation. Yet the "golden times" of "posto fisso" will never return.

According to a recent study on the "Future of Work" by the International Monetary Fund, the more automated and globalised the job market will be, the more human work will consist of single tasks and "gigs" rather than stable jobs. Workers will shift

---

<sup>22</sup> Ministero dell'Economia e delle Finanze, *Documento economia e finanza (DEF 2017)*, p. 45, available at [http://www.mef.gov.it/en/focus/article\\_0031.html](http://www.mef.gov.it/en/focus/article_0031.html)

<sup>23</sup> Reiner, C. "Brain competition policy as a new paradigm of regional policy: A European perspective", *Regional Science*, Volume 89, Issue 2, 2010, pp. 449-461.

<sup>24</sup> Alesina, A. F. & Glaeser, E. L., *Fighting poverty in the US and Europe*. New York: Oxford University Press. 2004

<sup>25</sup> Razin, A., Sadka, E. & Swagel, P. "Tax burden and migration: A political economy theory and evidence", *Journal of Public Economics*, 85, 2002, pp.167-190.

from being employed for one or more firms to having different jobs and thus different sources of income.

The design and funding of tomorrow's social safety net must be adapted for a workforce that is increasingly independent"<sup>26</sup>. Italy has a very high protection of full-time workers, and is thus in a particularly disadvantaged position to face the challenges of crowd-based capitalism, in which individuals earn a living as independent contractors in large work-sharing platforms. Popular sharing-economy platforms such as Uber and AirBnB have already been targeted by recent legislatures, under the banner of "unfair competition" toward the traditional industries they were disrupting<sup>27</sup>. In this way, the creation of the new jobs– Schumpeter's "creative destruction"– is made difficult by state's barriers. This increases intergenerational imbalances, since it protects "incumbents" from the competition of young people who could benefit more from the gig economy.

The Italian middle class is suffering from a stagnant economy, with policies that prevent dynamism and innovation, penalise the young generation and create a diffuse feeling of decline.

## 6. Conclusion

The income of the Italian middle class has remained largely the same over decades of crises. At the same time, the source of this income has changed relevantly: compared to the late 1970s, more income is obtained from pensions and less from labour. Likewise, the Italian expenditure on pensions is now larger than ever. This, combined with the recent sovereign debt crisis, has contributed to the negative way in which middle-class households perceive themselves. After the 2011 crisis and the ensuing years of austerity, the conditions of the job market saw a sharp decline: unemployment spiked, as did discontent.

On the one hand, the older members of the middle class began to worry about their offspring, whom they realised could achieve no job security and a pension program far less generous. On the other hand, younger generations faced worse career prospects and dramatic difficulty in starting and raising a family. Consequently, scepticism toward the political class, and the EU in particular, peaked. In such conditions, the Italian middle class has been unable to fulfil its entrepreneurial role as engine of growth– and least of all that of "cradle" of a solid and culturally sound political class.

---

<sup>26</sup> Sundararajan, *The Future of Work, Finance & Development*, 2017, Vol. 54, No. 2

<sup>27</sup> Del Prato, F., "AirBnB: regolare poco per regolare bene" *IBL focus* 262, March 2016 <http://www.brunoleoni.it/airbnb-regolare-poco-per-regolare-bene>.

In this context, the emerging political ruling class was unable to take a necessary change of direction: from excessive reliance on public expenditure and unsustainable distribution of jobs in the public sector, to a radical revision of the job market, liberalisation of professions and simplification of bureaucracy. As a matter of fact, this was hardly the case for Italy. Due to the lack of a mature middle class, Italian politics began to shift toward more populist, scientifically unsound, and sometimes xenophobic views. Many Italians suddenly took an interest in politics without having a real grasp of the causes of the crisis, let alone an idea of the reforms necessary to restore growth and recover the country.

In this scenario, the European Union could play an important role by providing the correct guidelines for reforms, by putting a constraint to excessive public expenditure in Italy and by encouraging the introduction of a more sustainable system of welfare, mindful of the young (and future) generations and of those who will contribute to Italy's welfare in the future.