It Never Rains but It Pours. Subjective Poverty and Income Reduction after Covid-19 in Italy

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The economic consequences of the COVID-19 pandemic might be different for different population sub-groups defined by age, educational level, working status and size of the household they live in, but also by the economic conditions before the pandemic. In this paper we use the special survey carried out by the Bank of Italy in April-May 2020 to identify which categories of individuals need more income support as they are more at risk of being in a condition of subjective poverty aggravated by the economic crisis due to the health emergency.

1 Introduction and Motivation of the Study

The Covid-19 pandemic has brought in most countries not only a serious health emergency, but also an economic shock. In fact, the measures to combat the spread of the virus have led to temporary closures of industries, offices, enterprises and businesses. The long-term consequences of the current crisis on production and consumption are not predictable yet as we are still living in the pandemic period with a succession of more or less severe lockdowns.[1]

However, we can reasonably expect an increase in poverty levels and inequality since the economic crisis produced by the pandemic has had and will have different effects on different population subgroups. It is likely that families that were already economically weaker and without political representation before the pandemic will suffer the most from the worsening in their economic situation.[2,3]

Italy is an interesting case to be studied as it is one of the countries that has been most affected since the first months of the pandemic and it is one of the countries that first opted for a lockdown (from the first days of March 2020). Moreover, Italy had already experienced an increase in poverty rate as a consequence of the economic recession (from 3.5% in 2005 to 7.0% in 2018 according to ISTAT data on absolute poverty) because of the weak welfare state system and the progressive deregulation "at the margins" of the labour market.[4]

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Accurate and reliable data on income reduction for different population subgroups will not be available before mid-2021. However, households are already aware of the consequences of the pandemic on their economic situation and they can provide a subjective estimation of the income loss they are facing.

During the pandemic income support policies were limited[5] and eligibility was conditional on employment status and type of contract. Therefore the income loss suffered by different families depends on the position of household members in the labour market: the self-employed have been probably hit more than dependent workers, temporary workers probably have found more difficulty in renewing their contracts, some companies have resorted to the redundancy fund (*Cassa Integrazione Straordinaria*) for their employees while others were not eligible for it while civil servants with a permanent contract and retired people have not seen their income fall at all.

Since the worker position in the labour market is correlated to individual characteristics, it is likely that the COVID-19 pandemic produced an accumulation of disadvantages with relevant long-term consequences on individuals' well-being, family consumption and investment.

In order to investigate the accumulation of disadvantages due to the pandemic, we use data collected by the Bank of Italy in April-May 2020 for a special survey on Italian households. This data contains information on the perceived economic conditions of households before the pandemic and on income reduction suffered in the first two months of the pandemic. Both indicators can be considered as subjective perceptions while no real information on income is included in the survey.

Beside objective data on income reduction, subjective perception of own economic status is relevant for the possible real effects on consumption and investment behavior.[6,7] Subjective poverty, *i.e.* the individual perception of deprivation, may result from objective poverty, but it can also go beyond that and in fact there is not a perfect overlap between the poor population identified by measures of objective and subjective poverty.[8] In Italy the percentage of individuals and households reporting subjective hardship is strikingly high compared to the levels reported in other EU areas.[9]

1.1 Research Questions

According to the Bank of Italy data* , almost half of the interviewed individuals declared that before the pandemic they were able to make ends meet with difficulties. Among these, 15% can be defined as subjectively poor as they declare serious difficulties. In the first two months of the most rigid measures to reduce the widespread of the pandemic (March-April 2020) more than half of the individuals affirmed they had suffered a family income reduction even considering the income support transfers received from the government.

* https://www.bancaditalia.it/pubblicazioni/note-covid-19/2020/Evi-preliminari-ind-straord-famiglie.pdf.

Given these data, we first analyze the relationship between subjective poverty and income fall. We expect those who were already suffering the most have seen their economic situation further worsened. We analyze the effect of individual and family characteristics on the relationship between feeling poor before the pandemic and suffering an income reduction during the first months of the pandemic. In particular, we focus on age, education, employment status and family size. Finally, we define some types of individuals' situations that allow the identification of the individuals most affected by the economic consequences of the pandemic that need special attention in income support policies.

2 Empirical Analysis

2.1 Data, Variables and Method

In order to investigate the subjective poverty of Italian households during the spread of Covid pandemic, we use the 2020 data of the Bank of Italy's special survey on Italian households. The survey was conducted between April and May 2020 in order to collect information on the economic situation and expectations of families at the beginning of the economic crisis due to the Covid-19 pandemic. The reference population is the Italian adult population older than 18, and the sample consists of 3,079 observations[†] . As in the literature on subjective poverty, we define "subjectively poor" (before the pandemic) those individuals that declared difficulties experienced by households in making ends meet (great difficulty or difficulty). We define as worse economic condition a reduction by 25% or more in the household income (including any income support received) as a result of the Covid-19 emergency. The intersection of the two conditions shows the degree of severity in poverty conditions of the Italian households.

First, we run a multinomial logit on the probability of having experienced an income reduction by level of subjective poverty. Then, we estimate a logistic regression on the probability of experiencing a relevant income reduction (25% or more) and we present the results as average marginal effects to show the effect of the individuals characteristic (age, educational level, household size, employment status, type of contract) considered as the most relevant variable in the poverty literature.[10] Finally, we define four distinct situations resulting from the intersection between the ability to make ends meet before the pandemic and the income reduction due to the pandemic. We estimate two multinomial logistic regressions on the probability of experiencing one of the four situations and we show the results as average marginal effects to highlight the effect of education, age and working status.

[†] For more information on Bank of Italy data see: https://www.bancaditalia.it/statistiche/tematiche/indagini-famiglie-imprese/indag-straord-famiglie-italiane/index.html (Bank of Italy's data are open access on this website).

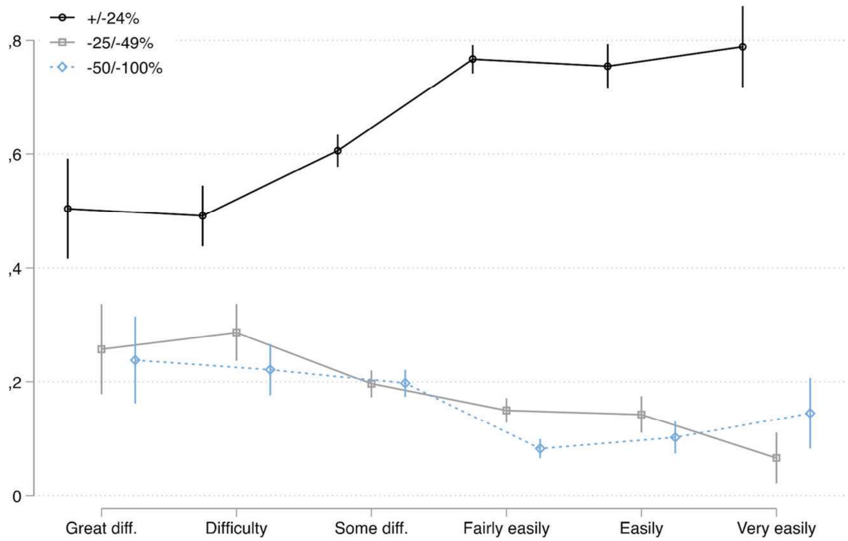

Figure 1: Probability of suffering an income variation by ability to make ends meet (multinomial logit, weighted linear probability). Source: authors' elaboration on Bank of Italy special survey in 2020.

2.2 Results

The relationship between feeling poor before the Covid-19 pandemic and experiencing an income variation is shown in Figure 1. The probability of experiencing little or no income variation increases as the ease to make ends meet increases (black line). The grey and the blue lines show that those who were already subjectively poor before the pandemic have been also more likely to suffer dramatic income falls at the beginning of the pandemic.

As Figure 2 shows, the negative correlation between subjective poverty and income fall is more pronounced for young people and adults with respect to retired individuals, for those who live in larger households (four members or more), for those with upper secondary education and for the employed.

The analysis of the subsample of the employed shows that income reduction particularly hit self-employed (Figure 3). This is the case of shopkeepers who experienced the forced shut down, of professionals who have seen a reduction in work, of small entrepreneurs in the non-essential services sector, but also of those individuals working for firms as collaborators (*partite IVA*) that represent in the Italian context the weakest and less protected category of workers. Collaborators, in fact, could not access redundancy funds as employees and received only small income support during the pandemic.

We identify four possible states (defined over subjective poverty before the pandemic and over income reduction in the first months of the pandemic)

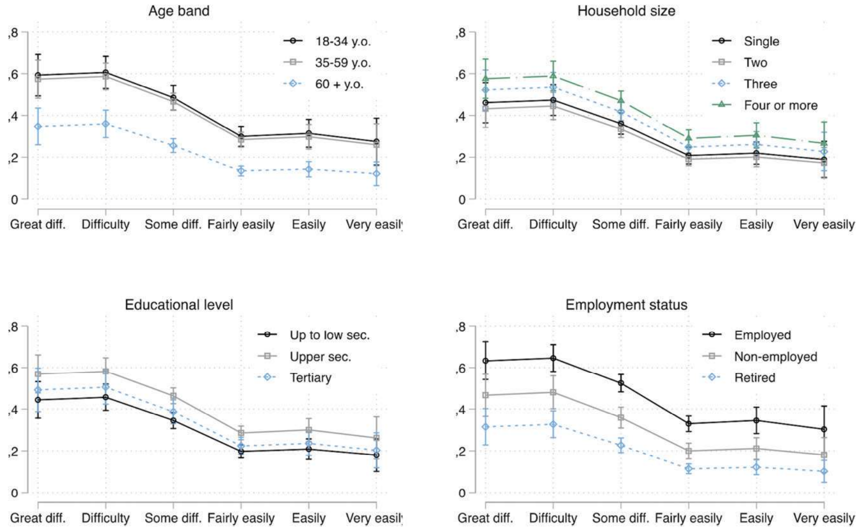

Figure 2: Probability of suffering from income reduction by household characteristics (logit regression, weighted linear probability). Source: authors' elaboration on Bank of Italy special survey in 2020.

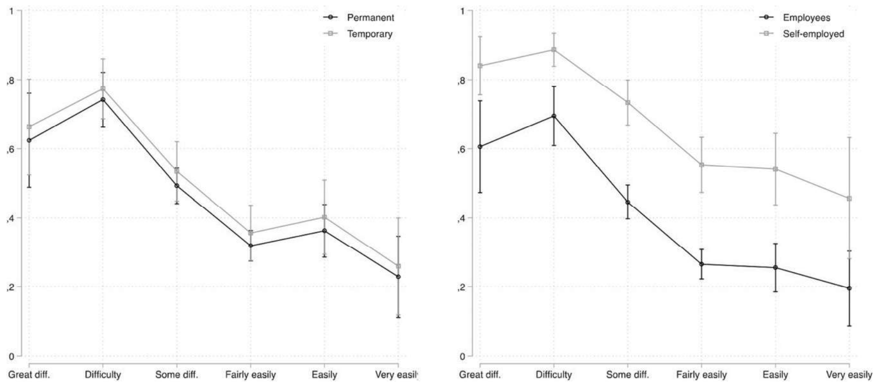

Figure 3: Probability of income reduction by employment characteristics household characteristics (logit regression, weighted linear probability). Source: authors' elaboration on Bank of Italy special survey in 2020.

in which individuals may find themselves. Figure 4 and Figure 5 show the probability of being in one of the four states by educational level for individuals of different age and employment status.

Having a higher educational level seems to protect individuals form being in a situation of fragility and it increases the probability of facing no difficulties. Young and adult individuals seem to have suffered more than individuals in the

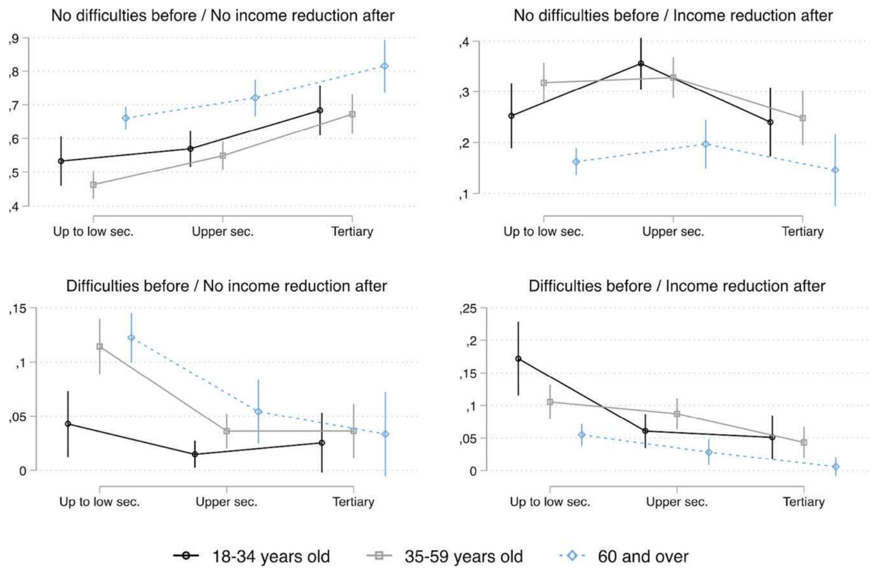

Figure 4: Probability of being subjectively poor before and after Covid by age and educational level (multinomial logit, weighted linear probability). Source: authors' elaboration on Bank of Italy special survey in 2020.

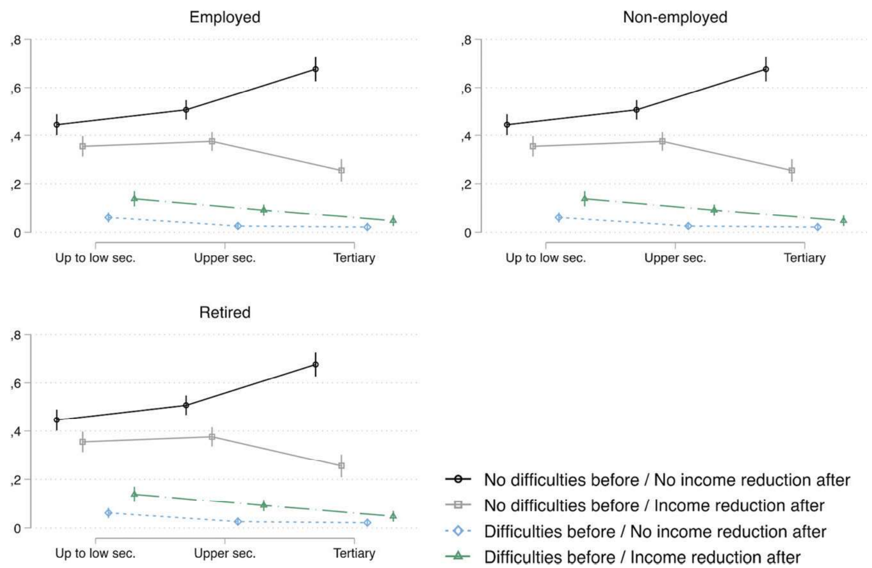

Figure 5: Probability of being subjectively poor before and after Covid by educational level and employment status (multinomial logit, weighted linear probability). Source: authors' elaboration on Bank of Italy special survey in 2020.

oldest age groups. If we look at the employment status, as expected, the least affected category is the one of pensioners, that were however most hit by the virus, with a high rate of mortality.

3 Concluding Remarks

The health emergency produced by the spread of Covid-19, with the limitations imposed on economic activities, had an overwhelming impact on Italian households' income. The weakness of anti-poverty policies and the strong public finance constraints that characterize the Italian context could have exacerbated the effect of the economic crisis due to the pandemic.

According to our data, about one third of households have seen their disposable income reduced substantially since the first month of the pandemic. This income reduction particularly hit those families that already were (or felt) poor before the pandemic and make those who were just above the poverty line at serious risk of slipping under it. Two phenomena seem to co-exist: on the one hand, the incidence of poverty has grown and, at the same time, the intensity of poverty has increased. As a consequence, some social groups have become even more vulnerable. The most fragile workers, *i.e.* youth, low educated and those working as self-employed, are more at risk of suffering a significant income reduction.

Considering this scenario, it is astonishing that during the pandemic many incentives have been introduced for instance to buy e-bikes and to renovate houses (often even second homes) instead of, for example, strengthening the guaranteed minimum income (*reddito di cittadinanza*).

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