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# A tale of two countries: The long shadow of the crisis on income and wealth in Germany and Italy

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What are the impacts of economic crises on the distribution of income and wealth? The available empirical research suggests that the distributional effects of crises are contextual and that a ‘hard and fast’ pattern might not exist. Crises differ in their root causes and the effects on the distribution may vary across countries, across inequality concepts (market or disposable income, wealth or consumption), and across inequality measures (Gini, top shares, gaps between socio-demographic groups, etc.). Considering a sample of 25 countries and 35 banking crises over the last century and using an array of economic inequality indexes and several definitions of macroeconomic crises, Atkinson and Morelli do not find a clear pattern in pre- and post-crisis developments of inequality.<sup>1</sup> However, they highlight that severe financial crises coupled with economic recessions are more likely to be followed by increasing levels of overall income inequality. Nevertheless, different parts of the distributions may react differently to the onset of a crisis. Focusing just on the top of the income distribution and using tax data, Morelli shows that the richest segments of the income distribution in the United States generally lost ground in relative terms following the three most severe financial crises since 1900.<sup>2</sup> The documented changes, however, are found to be temporary

1. A. B. Atkinson / S. Morelli, ‘Inequality and Banking Crises: A First Look’, Report for the European Labour Forum (2011).
2. S. Morelli, ‘Banking Crises in the US: The Response of Top Income Shares in a Historical Perspective’, in: *Journal of Economic Inequality* 16 (2018), 257–294.

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in nature as top income shares of the richest groups tend to bounce back to the pre-crisis trend within 5 years from the onset of the shock. Using household survey data in the United States from the Current Population Survey (CPS), Almeida finds that ‘income losses experienced by richer households were relatively modest and transitory, while those experienced by poorer households were not only strong but also highly persistent’.<sup>3</sup>

This account refers to ‘vertical’ income inequality. There are also important concerns about other economic dimensions of inequality, like the stock of wealth held by individuals and households. Similarly, people differ in a large number of ways and ‘horizontal’ dimensions of inequalities may also be very important. For instance, macroeconomic crises may have a markedly different effect on different generations and individual age groups.<sup>4</sup> Young households purchasing assets may benefit from depressed prices and gain from future asset price gains rooted in the crisis dynamics. However, in the wake of the crisis, labour market conditions disproportionately deteriorate for the young, who are about to enter the labour market or are in early career stages. Facing sharp earnings losses as well as lower earnings or unemployment prospects, the young may need to dissave more and take on more debt during the crisis and may be less able to save and accumulate wealth in the years after the crisis.

In this article, we investigate to what extent macroeconomic crises can leave a long-lasting mark on younger generations. To shed light on this important aspect, we use data related to the great financial crash of 2007/2008, contrasting evidence for two of the richest European countries, Germany and Italy. We begin by showing the macroeconomic dynamics of income, wealth, unemployment, and savings since 2007 in Italy and Germany. We then discuss the evolution of income and wealth inequality in both countries. Finally, we look at the differential income and wealth growth across age groups, highlighting the widening income and wealth gaps between the young and old in Italy and Germany.

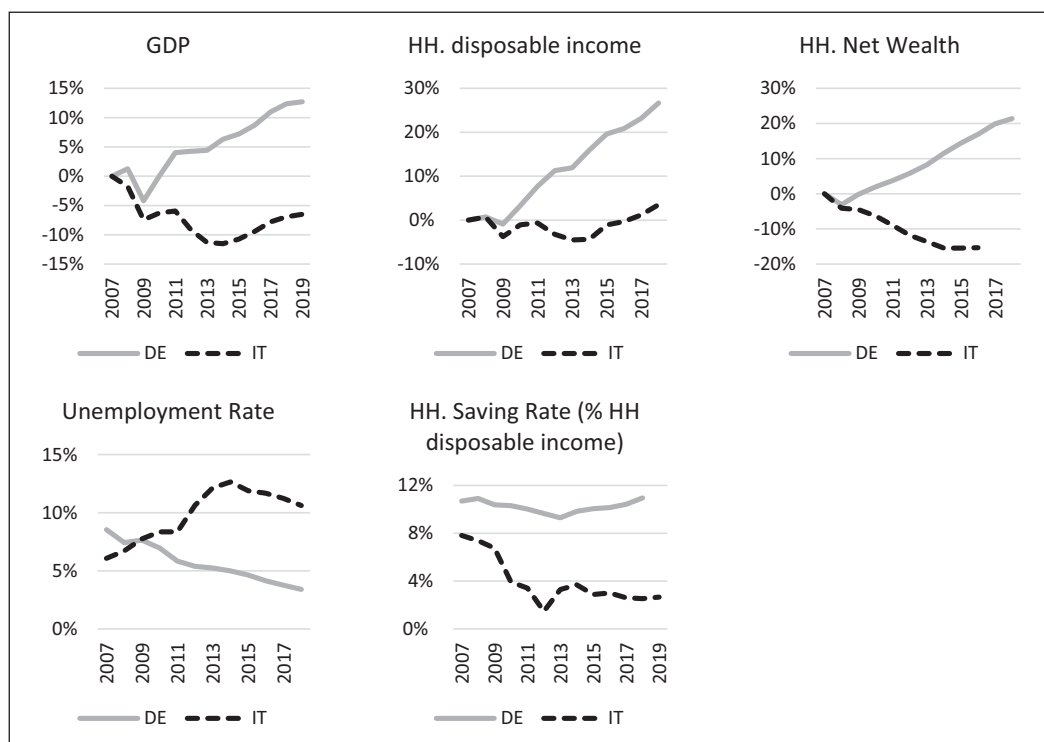
## Macroeconomic dynamics

Macroeconomic indicators provide important and complementary information about changes in the distribution of economic resources of households. Italy and Germany are two of the richest and most industrialized countries in the European Union (EU) and are among those countries hit hardest by the Great Recession in 2008/2009. The left-hand upper panel of Figure 1 shows that, between 2007 and 2009, real gross domestic product (GDP) per capita declined by 7% in Italy and by more than 4% in Germany. However, diverging dynamics become clear immediately. Germany’s GDP had already surpassed pre-recession levels by 2010, whereas Italy, as of 2019, had not yet returned to its pre-Great Recession GDP level.

With the national GDP shrinking during economic recessions, income received by households is affected in turn. As for GDP, comparing household disposable income between Germany and Italy shows a pattern of growing discrepancies (see middle upper panel of Figure 1). In Germany, household disposable income essentially remained stable between 2007 and 2009, then grew continuously; by 2018, it was almost 30% higher than in 2007. In contrast, disposable household income decreased by 4% in Italy from 2007 to 2009 and only surpassed the level of 2007 ten years later in 2017. As income declined in Italy, so did the household savings rate: falling from ca. 8% to

3. V. Almeida, ‘Income Inequality and Redistribution in the Aftermath of the 2007-2008 Crisis: The U.S. Case’, in: *National Tax Journal* 73 (2020) 1, 77–114, 77.

4. A. Glover et al., ‘Intergenerational Redistribution in the Great Recession’, in: *Journal of Political Economy* 128 (2020) 10, 3730–3778.



**Figure 1.** Change of income and wealth per capita since 2007 in Italy and Germany.

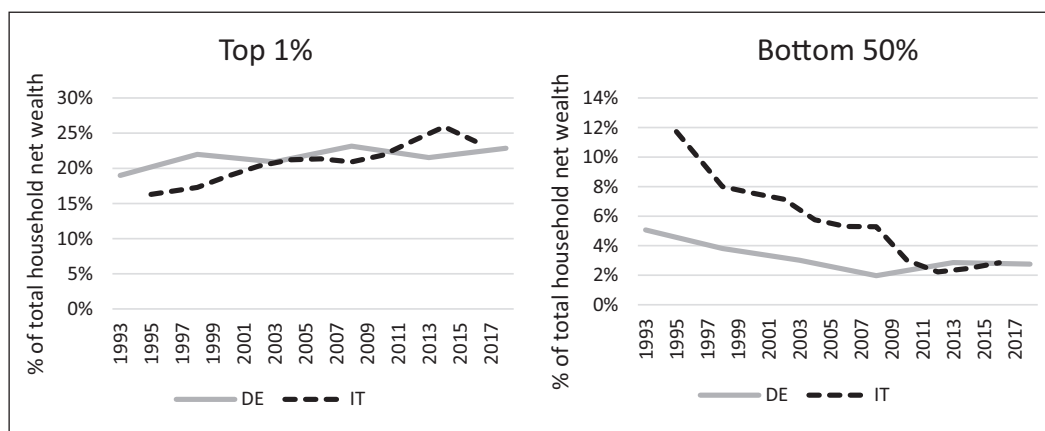
Sources: Eurostat. Italian estimates of net wealth of the household sector are derived from P. Acciari / F. Alvaredo / S. Morelli, 'The Concentration of Personal Wealth in Italy 1995-2016', mimeo. Unemployment and savings rate are taken from OECD.

Top figures in per capita levels, in prices of 2010 and in growth rates with base year 2007. Net wealth of the household sector (S14) is the sum of financial and non-financial wealth minus all liabilities.

less than 3% of household disposable income over the 2007/2018 period. In contrast, German household savings rates remained rather stable at around 11% over the same period (see middle lower panel of Figure 1).

Unemployment increases during and in the aftermath of crises, which in turn reduces household incomes (see left lower panel of Figure 1). In Italy, the total unemployment rate had almost halved from 11% in 1998 to 6% in 2007. It then more than doubled following the crisis reaching almost 13% in 2014. Although the unemployment rate started declining since then, it was still about 10% in 2018, a level substantially higher than in the pre-crisis period. In Germany, total unemployment followed quite a different pattern. The unemployment rate declined almost continuously since 2007, with the sole exception of 2008/2009 when the unemployment rate slightly increased. In 2018, it was approximately 3%.

As the dynamics of incomes and savings affect wealth accumulation and asset prices, it is unsurprising that household net wealth declined from 2007 to 2008 in both countries (see right-hand upper panel of Figure 1). However, consistent with the development of household incomes and the savings rate, the experience of both countries diverged quite rapidly. Whereas household net wealth has expanded in Germany since 2008, net wealth in Italy has been declining since the onset of the crisis. The strong and sustained decline of Italian household net wealth may reflect the



**Figure 2.** Wealth inequality in Italy and Germany.

Source: German data based on EVS from T. N. Albers / C. Bartels / M. Schularick, 'The Distribution of Wealth in Germany, 1895-2018', in: ECONtribute Working Paper (2020). Preliminary Italian data from P. Acciari / F. Alvaredo / S. Morelli, 'The Concentration of Personal Wealth in Italy 1995-2016', mimeo.

German series is based on household wealth; Italian series refers to individual wealth holdings.

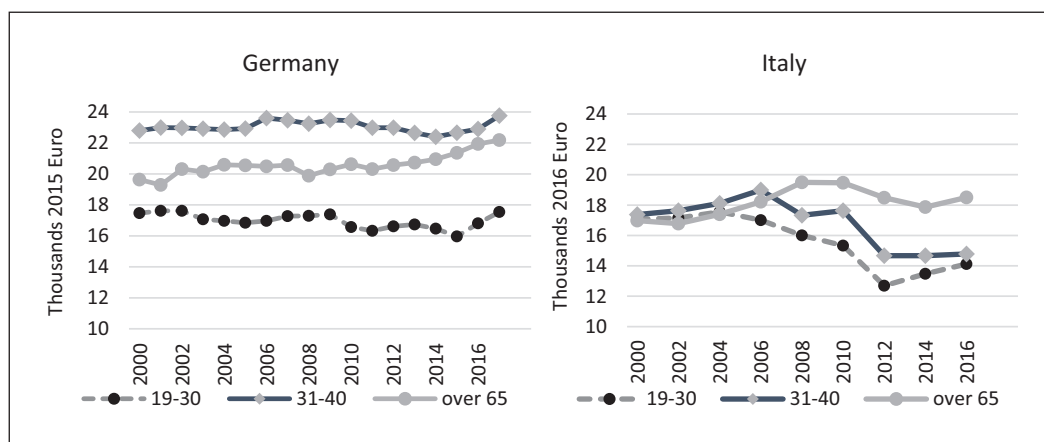
fact that the crisis had a long-run negative impact on household incomes such that individuals are dissaving to sustain their living standards for longer periods and the asset markets may be partly discounting the lower future income streams of Italian households. Conversely, the crisis had very little long-run effect on German household income prospects.

## Distribution of income and wealth

The dynamics of economic inequalities in Germany and Italy also differ, thus highlighting the importance of exploring the experiences of different countries in a comparative perspective. While income inequality and poverty rates remained broadly stable after the Great Recession in Germany, these increased in Italy. Although income inequality and poverty had increased strongly in the years prior to 2005 in Germany, when focusing on the years following the Great Recession, no significant changes are observed.<sup>5</sup> In Italy, income inequality has increased slightly since the onset of the crisis. The poverty rate increase was more pronounced as income losses were relatively larger for the bottom of the income distribution.<sup>6</sup> Wealth inequality has increased in both countries since the 1990s, but the dynamics are visibly more pronounced in Italy. Figure 2 shows that the share of total personal net wealth accruing to the richest 1% grew in both countries since mid-1990s, while the wealth share of the bottom half collapsed. While we observe an acceleration of the decline of the bottom half's wealth share in Italy connected to the 2007/2008 crisis, the decline in Germany halted with the crisis. The top percentile's wealth share continued to grow in Italy, albeit following a temporary pause following the 2007/2008 crisis. In Germany, the top 1% share in total wealth shows very little sign of changes since the crisis.

5. M. Grabka, 'Income and Wealth Inequality after the Financial Crisis: The Case of Germany', in: *Empirica* 42 (2015) 2, 371–390.

6. A. Brandolini / R. Gambacorta / A. Rosolia, 'Inequality amid Income Stagnation: Italy over the Last Quarter of a Century', in: Banca d'Italia Occasional Papers 442 (2018).



**Figure 3.** Disposable household income for the young and the old in Italy and Germany.

Source: German data are own calculations with SOEP. Italian data from Banca d'Italia.

Note: Real disposable equivalent household income at 2015 prices in Germany and 2016 prices in Italy.

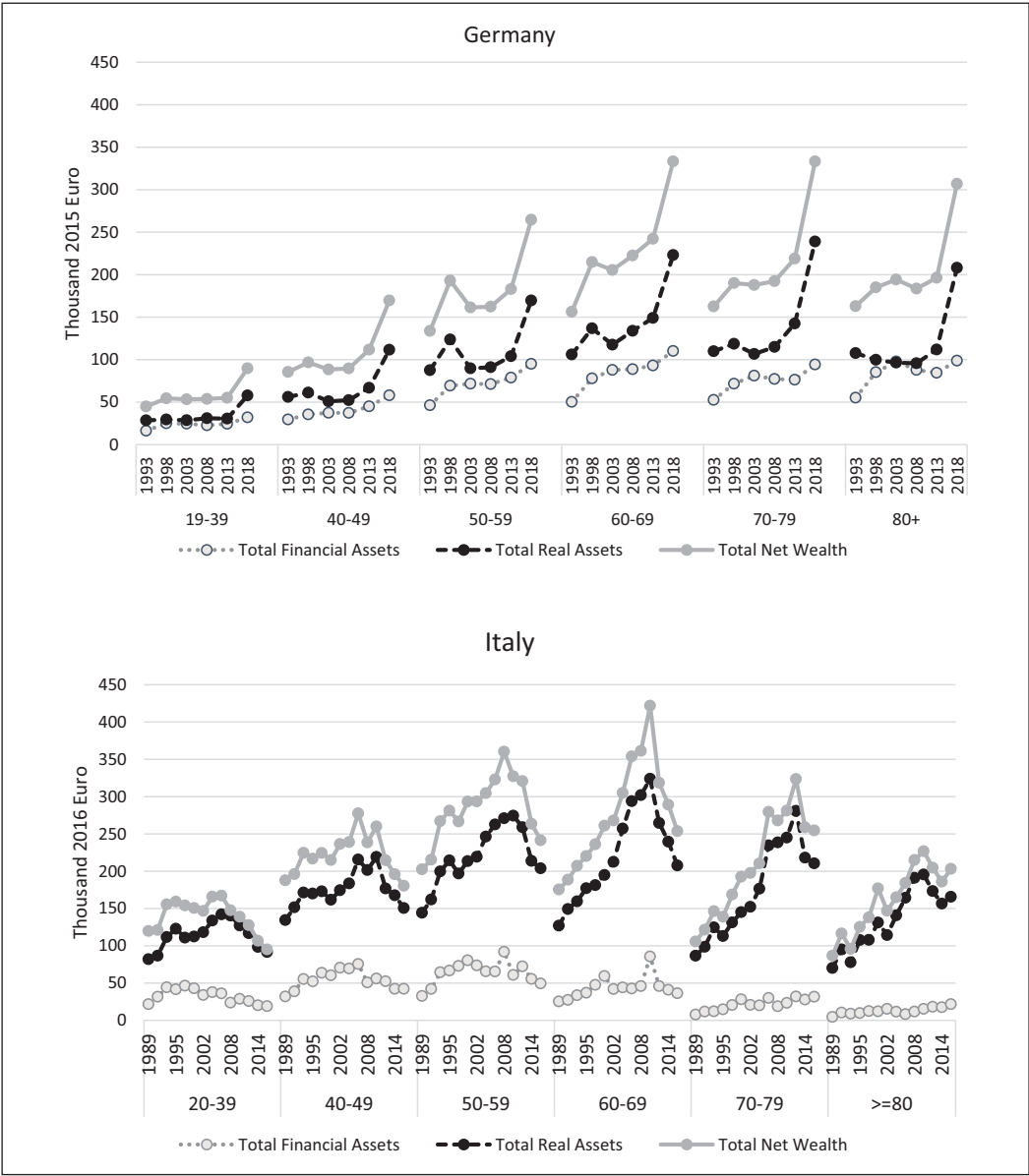
The aggregate dynamics of income and wealth inequality in Italy and Germany mask a widening gap between the young and the old, although for seemingly different reasons. Figure 3 shows that, in the first half of 2000s, the level of real disposable income of relatively young Italian households (with reported age of heads between 19 and 30 years old or between 31 and 40 years old) was fairly similar to that of older households with heads aged 65 years or more. The onset of the 2007/2008 crisis led to a sharp decline of incomes of young households that, despite a small increase after 2012, has not reached the levels of the early 2000s in 2016. The 2016 average real income of old households (65+) is only slightly higher than its 2000-level. In contrast, real disposable incomes of young German households aged 19 to 30 years or 31 to 40 years declined very mildly from 2007 to 2015 and, by 2017, almost recovered the lost ground with respect to the early 2000s. Most importantly, households with heads between 31 and 40 years received substantially higher incomes than old households in Germany. In sum, young Italian households, up to age 40, saw their incomes decline in the wake of the crisis and have not returned to pre-crisis levels as of 2016. Their German counterparts have seen relatively small real income losses and reached pre-crisis levels over the same time span. In both countries, older households with heads aged 65 years or older experienced higher income growth than young households.

Heterogeneous dynamics of youth unemployment<sup>7</sup> and unemployment more broadly, as described in previous section, may help explain part of the heterogeneous experience of the two countries. While the unemployment rate for young males increased in Italy from approximately 18% in 2007 to almost 28% in 2019, it declined in Germany from about 12% in 2007 to about 7% in 2019.<sup>8</sup> Youth unemployment was already a major issue in Italy before the crisis. During the crises, heterogeneous economic effects by age group were reinforced. In particular, the relative position of young households weakened across all deciles.<sup>9</sup>

7. Youth unemployment rate is defined as the number of unemployed 15-24-year-olds expressed as a percentage of the youth labour force.

8. Unemployment rates of young females differ even more: 31% in Italy vs. about 5% in Germany.

9. Brandolini / Gambacorta / Rosolia, 'Inequality amid Income Stagnation'.



**Figure 4.** Average household net wealth by age group in Italy and Germany.  
Source: German data based on EVS from Albers / Bartels / Schularick, 'The Distribution of Wealth in Germany, 1895-2018', own calculations. Italian data from SHIW, own calculations.  
Household net wealth in 1000 Euros and in prices of 2016.

A widening gap between the young and old is also observable for net wealth holdings (i.e. the sum of total real assets and financial assets minus liabilities). Figure 4 shows average household net wealth by age of the household head over time. Across age groups, net wealth per capita has declined quite steadily in Italy since 2007, while steadily expanding in Germany. However, the extent of this decline varies across age groups in Italy, while wealth grew at similar rates across age

groups in Germany. For young Italian households, the crises eradicated a substantial portion of their wealth. Their post-crisis net wealth is lower than their pre-crisis net wealth. For older Italian households, by contrast, the relative wealth loss after the crisis was much lower and wealth did not fall below levels of the early 2000s. Between 1989 and 2016, older Italian households (household heads aged 60 years and older) gained more than 50,000 Euros net wealth, on average. Young Italian households (household heads below 40 years) have less wealth in 2016 than in 1989. Between 1993 and 2018, older German households gained more than 150,000 Euros net wealth, on average. Young German households gained 50,000 Euros net wealth, on average. Today, older households are three times richer than younger households both in Italy and Germany. This relative gap has increased in Italy, where older Italian households were about twice as rich than younger households in the early 1990s. The relative gap has remained stable in Germany. However, the absolute wealth gap has increased in both countries. In Germany, the wealth gap between younger and older households has increased from 100,000 Euros in the 1990s to 200,000 Euros in 2018. In Italy, the wealth gap between younger and older households has increased from less than 50,000 Euros in the 1990s to 100,000 Euros in 2016.

Our comparison of the crisis effects on Italy and Germany highlights growing discrepancies between the two countries that together represent the manufacturing power houses of Europe. Italy and Germany accounted for 44% of GDP of the Euro Area (16 countries) in 2019 and produce almost half of the EU-28 value of sold industrial production. Yet, macroeconomic differences between Italy and Germany have grown since the Great Recession. While GDP, household income and household net wealth have declined over the years in Italy and unemployment rose, the reverse happened in Germany. Overall income and wealth inequality increased slightly in Italy following the Great Recession, but not in Germany. The most recent economic collapse due to the COVID-19 pandemic crisis will likely widen the economic gap as GDP losses in the second quarter of 2020, compared to the same period in the previous year, came in at  $-17.3\%$  for Italy and  $-11.7\%$  for Germany.<sup>10</sup> These figures suggest that regional income differences within the Euro Area are further expanding.

A common feature for Italy and Germany is their comparably old population and a widening economic gap between the young and the old. However, while incomes of young households stagnated in Germany, they declined in Italy. Real incomes of old households increased in both countries.

Importantly, similar to what happened in the previous economic downturn, there are already worrying signs that the economic downturn sparked by the COVID-19 pandemic will hit younger generations harder. According to labour statistics by the Italian Institute of Statistics (ISTAT), the employment rate of individuals aged 15–34 years old has dropped by 8% in the second trimester of 2020 (with respect to the same period of the preceding year), whereas the employment rate did not change for the population 50+. These scars from the COVID-19 pandemic will accumulate on existing scars, certainly worsening the ongoing generational crisis in Italy. Germany faces the COVID-19 crisis from a less vulnerable economic condition than Italy, but statistics show that the economic shock was large and disproportionately affects younger generations. The unemployment rate for younger age groups increased faster than the population average. This will likely create growing pressure in both countries, requiring policy makers to monitor and address a growing generational divide within a context of growing political and economic tensions.

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10. Eurostat 2020 – July 2020 data release: <https://ec.europa.eu/eurostat/documents/2995521/11156775/2-31072020-BP-EN.pdf/cbe7522c-ebfa-ef08-be60-b1c9d1bd385b>