The Economics of Sleaze

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Infrastructure Minister Maurizio Lupi, whose name came into a Florentine prosecution investigation into graft, is not himself under formal investigation, but, as phone taps showed, he sought favors from arrested graft suspect Ercole Incalza, including a well-paid job for his son. The now former Minister Lupi is not in Renzi's PD, but the complications have gone well beyond his own party, headed by his good friend Angelino Alfano, who split with his own former buddy Silvio Berlusconi to form the New Center Right (NCD), whose support is essential for keeping Renzi in power.

And therein lies the problem. Although Lupi insists that he has done nothing wrong, Renzi, 39, has, in his thirteen months as head of the government, taken the high road in maintaining that his is a breath of freshly honest air in the wake of the scandals that marked the Berlusconi decades. “Reform” has been Renzi\s verbal stock in trade. For days Lupi refused to quit, but however critical the NCD votes, the question was whether the energetic Renzi could allow himself to fall into old political patterns and simply shut his eyes to patently unethical behavior. And when unemployment all over Italy stands at 12.6%, and youth unemployment at around 40%, the Renzi government could not appear to cover up the favoritism of treibal recommendations (in this case, for a job for the son to earn $2,200 monthly).

Alfano did his best to back Lupi, and on Wednesday Renato Brunetta, Berlusconi’s man in Parliament, leaped forward to shake Lupi’s hand for the cameras (who knows? Maybe the government will collapse, and Renzi will have to seek other support elsewhere….) Curiously, the PD benches were mostly empty, hinting of something less than support. But the incident, which now means that the government is not at risk, is nevertheless food for thought.

In addition to Italy’s history of strong family ties and an unfortunate precedents of political leadership compromised by kickbacks, my own question is whether or not, behind such examples as Lupi and his jailed buddy Incalza, there are larger issues that explain this sort of behavior. For a possible explanation, I turned to Corrado Gini (1884-1965), the author of the famous Gini coefficient, or Gini Index, still used to measure the income distribution of a population. Gini, the author of The Scientific Basis of Fascism, was initially a Mussolini favorite but was then hassled by the Fascist regime, and quit the statistical institute he had created.

Wealth concentration is exactly what the Gini Index measures, and I was interested in Gini because one theory of political corruption is that the concentration of economic power in the hands of the few (see Krugman) is among the causes of a corrupt political class. In his Gini-based study of wealth distribution in Italy, economist Federico Stoppa explains it this way: “Unfortunately, in our country the distribution of wealth is much more concentrated than the distribution of available income.” In 2012, writes Professor Stoppa, the Gini Index shows 0.65 for inherited wealth versus 0.34 available income – that is, inherited wealth here is a highly exaggerated amount vis a vis earned income.

As a result, some 2 million Italian families (10% of the total) own 46.6% of total wealth of the nation (property primarily) and 27% of total earned income. Fully half of the poorest families, by contrast – 50% -- own altogether only one tenth (10%) of Italy’s total wealth. Not only, but during the period 1998-2012 the percentage of families in which wealth is concentrated rose by 4.1%, kickstarted during the Nineties. (For his full analysis in Italian, see >>> [2])

As a three-year study of the Gini Index, financed by the EU, shows, “In Italy the rich are ever richer and the poor ever poorer.” Based on the results of the study, the Italian financial daily Il Sole 24 Ore agrees that Italy is among the European nations “which register the greatest income distribution inequality, second within the EU only to the United Kingdom, and with disparity levels that go beyond the median of the OCSE countries.” Our country’s Cinderella story is happening ever less frequently, concludes the newspaper, as “wealth shifts ever more into the wallets of the elderly at the cost of the younger.”

And here is the fallout. Based on a new Luxembourg Income Study, child poverty in Italy and nine other countries is between 11-20%. By comparison, child poverty in Scandinavia affects fewer than 5%, while in Austria, France and the Netherlands, under 10%. For the have-not children, this amounts to a life sentence of poverty and a lack of education. The fact remains that nine out of ten Italian students own a smart phone with an internet link, which they use (including during school hours)for Facebook, Twitter, WhatsApp, and Instagram.

However, Internet use for purposes other than social connections, including bullying, is limited, with Italy 58th down the line after Poland; only 35.5 million Italians have computer connections to the web, and well over one-third of Italians (37 out of 100) have no notion of how the Internet works. The good news: those families where there is a young person in the house are more likely than others to possess a personal computer. See >>> [3]

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