

Welcome Address

Carlo Fiorio

Head of the Department of Economics, Management and Quantitative Methods, University of Milan,
Milan, Italy – carlo.fiorio@unimi.it

Dear all,

As the Head of the Department of Economics, Management and Quantitative Methods of the University of Milan, let me start from thanking Giancarlo Manzi and all the other colleagues who contributed to organize this important workshop. This workshop would not have been possible had we not won the “Department of excellence” funds, provided by the Italian Ministry of Education, University and Research. Our project’s title is “Understanding societal changes from the economic perspective” and the current health crisis, which is affecting our hospitals and health care system, as well as the lives of all of us, is precisely one of the phenomenon we aim at addressing with this project.

I will just use a few minutes to introduce some aspects which I am sure will be discussed thoroughly during the workshop. Figure (1) shows an analysis that I performed with Francesco Figari from the University of Insubria, in April, showing how strong was the impact of the Covid-19 crisis for the first months on Italian household budgets. In the graph, the population is grouped in quintiles of household equivalized income, where the number 1 means includes all those in the bottom 20% of income, the number 2 all those in the next 20% up to the group 5, which includes the 20% of households with higher income. On the vertical axis the percentage income loss is reported. The impact was huge, and it still is during this second wave. Overall, the original income (i.e. before tax and transfers) dropped by nearly 35%, which reduced to slightly more than 10% in terms of disposable income. The lowest-income-group average loss of original income was even larger, close to 45%, reduced to about 8% in terms of disposable income. The magnitude of this unexpected crisis is an excellent way to understand and think further on the role of the State.

The Italian government, as most developed economies governments, reacted promptly and strongly, providing large amounts of resources as income supplementation schemes, lump sum transfers and mortgage reliefs. Table 1 shows some descriptive statistics, suggesting that these measures impacted a lot on

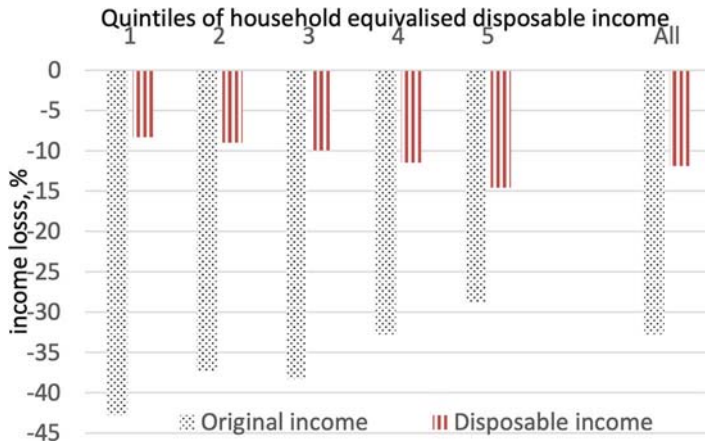


Figure 1: Income losses due to the economic shutdown, by household income quintile groups.

many citizens. Over ten million people were interested by these schemes, with a combined cost to contrast the effect of the first wave of over 10 billion euro (about 0.6% of the annual GDP).

In Figure (2) we decompose the public transfers to households by equivalent income quintiles and assess the relevance of government transfers to limit the disposable income loss due to the Covid-19 crisis. The red dots here show the Net Replacement Rate after the first month of the crisis, showing a decrease of about the 80% of disposable income which was much higher than what would have been were the supplementary schemes not been in place, notably for lowest income groups.

In Table 2 we show the effects of the crisis, assuming that the effects are similar to the one in the first month, remain constant throughout the year. It shows that

Table 1: The reaction of the State: Policies introduced by the Decree Law 18/2020: first month only.

Policy	Simulated cost		Entitled Thousands
	Billion Euros	% of GDP	
Wage supplementation schemes	5.6	0.31	7.013
- Credited social contributions	2.8	0.16	
Lump sum transfer (600 Euros)	1.4	0.08	2.360
Lump sum transfer (100 Euros)	0.5	0.03	4.962
Mortgage subsidy	0.15	0.01	363

Notes: Entitled to Wage Supplementation Schemes are individuals with positive employment income, working in sectors subject to the shutdown and not in the public sector. Entitled to Lump sum transfer (600 euros) are individuals with positive self-employment income, working in sectors subject to the shutdown and not receiving employment income. Entitled to Lump sum transfer (100 euros) are 50% (randomly selected) of individuals with positive employment income, working in sectors not subject to the lockdown.

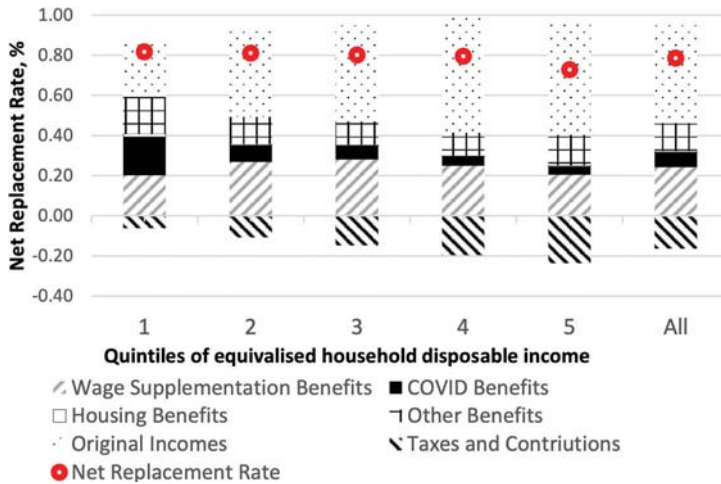


Figure 2: Income losses due to the economic shutdown, by household income quintile groups.

government intervention was crucial to limit the impact of the pandemic also on the distribution of income and notably on poverty rates, which is an immediate indicator of socio-economic distress. It remained large but much less than if no compensation had been introduced.

From my point of view as a public economist, this Covid-19 crisis represents also an opportunity to understand and reconsider the State intervention, which was gradually reduced for the last forty years. This progressive reduction of the role of the state has transformed our societies, also increasing the level of inequality and poverty, without much effect on the overall performance of the economy. Fighting poverty and reducing inequality might be among the next future economic challenges and reconsidering the role of the state to tackle these challenges is of key importance.

Table 2: Poverty rates before and after the Covid-19 pandemic.

	Before Covid-19	Shut-down without compensation policies	Shut-down with compensation policies
Workers in sectors subject to shut down	12.53%	67.97%	28.15%
Workers in sectors subject to shut down and living in one-earner household	22.13%	80.49%	43.71%
Overall population	19.07%	38.41%	27.28%
Children	23.27%	49.63%	36.34%

Notes: Entitled to Wage Supplementation Schemes are individuals with positive employment income, working in sectors subject to the shutdown and not in the public sector. Entitled to Lump sum transfer (600 euros) are individuals with positive self-employment income, working in sectors subject to the shutdown and not receiving employment income. Entitled to Lump sum transfer (100 euros) are 50% (randomly selected) of individuals with positive employment income, working in sectors not subject to the lockdown.

This is just one of the many ways you can look at the impact of the ongoing crisis. This workshop will host many very interesting contributions from the point of view of social sciences. I do believe it is a great opportunity for our Department and for the University of Milan as a whole to host such a workshop. More should come because crises are often tough, in many cases, very sad times for those most affected but still interesting times for researchers, including social science researchers, to be discussed, analyzed and understood.

On behalf of the whole Department of Economics, Management and Quantitative Methods, I welcome you all to this workshop and I wish you all a productive and stimulating time together.