

Volume 45, Issue 4

Bridging the divide: Growth, inequality, and poverty dynamics in Italy

Michele Fabiani
eCampus University

Abstract

Using SHIW microdata and ISTAT poverty thresholds, this study applies the Datt–Ravallion decomposition to evaluate how growth and redistribution shaped absolute poverty in Italy between 2014 and 2022. Growth substantially reduced poverty, but its impact was weakened by persistent inequality and significant regional asymmetries. Northern regions benefited most from growth-driven reductions, while the South and Islands depended more on redistribution. The analysis underscores that addressing structural disparities is essential for enhancing the poverty-reducing effect of growth and for designing effective, region-sensitive anti-poverty strategies.

Editor's Note: This paper was originally submitted under a different manuscript number on 11/24/2025 and accepted for publication on 11/26/2025. A system error required us to replace the original submission with a new manuscript with a later manuscript number.

Citation: Michele Fabiani, (2025) "Bridging the divide: Growth, inequality, and poverty dynamics in Italy", *Economics Bulletin*, Volume 45, Issue 4, pages 2143-2150

Contact: Michele Fabiani - michele.fabiani@uniecampus.it.

Submitted: April 27, 2026. **Published:** December 30, 2025.

1. Introduction

The relationship between economic growth, inequality, and poverty reduction has been a cornerstone of economic discourse for decades. While economic growth is widely recognized as a driver of poverty alleviation, the extent to which it benefits the poorest segments of society is strongly influenced by the level of inequality. High inequality acts as a barrier, limiting the ability of growth to translate into broad-based poverty reduction (Ravallion & Chen, 2003; Bourguignon, 2004). Conversely, in more equitable societies, the same rate of growth has a disproportionately larger impact on reducing poverty, as the benefits are more evenly distributed (Adams, 2004; Kalwij & Verschoor, 2007). This dynamic underscores the importance of addressing inequality as a central component of any poverty reduction strategy. In advanced economies such as Italy, the interaction between growth, inequality, and poverty is further complicated by significant regional disparities and structural socio-economic challenges. The dualistic nature of the Italian economy, characterized by a more industrialized and economically vibrant North and a less developed South, has long influenced national poverty trends (Lombardo, 2010; ISTAT, 2021). Economic growth in Italy has often been unevenly distributed, with the South experiencing slower gains and a weaker poverty-reducing effect of growth compared to the North. These disparities highlight the critical need for regionally tailored policies that address structural barriers to inclusive growth.

A key concept in understanding the poverty-inequality-growth nexus is the "pro-poor growth" framework introduced by Ravallion and Chen (2003), which posits that growth must disproportionately benefit the poor to achieve substantial poverty reduction. Empirical studies, including Dollar and Kraay (2002) and Adams (2004), demonstrate that growth alone is insufficient; its poverty-reducing potential is significantly moderated by income distribution. This framework has been central to analyses of Italy, where inequality continues to undermine the effectiveness of growth as a tool for poverty alleviation, particularly in the South and Islands.

The choice of poverty measurement also plays a crucial role in shaping our understanding of these dynamics. While relative poverty measures are common in European contexts, Italy's adoption of an official absolute poverty metric offers unique insights into deprivation. Absolute poverty, based on fixed thresholds of essential goods and services, captures the inability of households to meet basic needs. This measure has been particularly valuable in Italy for identifying structural barriers and regional disparities in poverty dynamics (Cuttillo et al., 2020). Although less emphasized in this study, the concept of absolute poverty provides an important foundation for understanding the limits of economic growth in addressing fundamental deprivation.

This paper seeks to contribute to the ongoing discourse by examining the interplay between growth, inequality, and poverty in Italy from 2014 to 2022. Using the Datt-Ravallion (1992) decomposition method, this study disentangles the contributions of economic growth and redistribution to poverty reduction, offering a detailed analysis of how these forces interact across regions. While the Datt-Ravallion method has been widely applied in developing countries, its use in the context of a developed economy such as Italy remains limited, making this analysis one of the few attempts to apply the framework to advanced regional disparities. The findings provide valuable insights into the structural and policy factors that influence poverty dynamics in a developed economy and highlight the critical role of addressing inequality to enhance the inclusiveness of growth.

2. Data and summary statistics

Income data come from the Survey on Household Income and Wealth (SHIW), a biannual survey by the Bank of Italy that collects detailed information on income, assets, and demographics. We use the Historical Database version 12.1 (October 2024), covering 1977–2022. Income is net of taxes and social security and adjusted using the modified OECD equivalence scale and sample weights. The analysis is conducted at the NUTS1 level (macro-areas). For simplicity, the term ‘region’ refers throughout to these macro-areas.

To assess poverty, we integrate SHIW data with ISTAT’s absolute poverty thresholds, available from 2014 onwards. These thresholds are based on a reference budget of essential goods and adjusted for household composition and local cost of living. As noted by Cutillo et al. (2020), this approach offers a more comprehensive view of poverty by incorporating consumption-based metrics.

Between 2014 and 2020, absolute poverty in Italy declined from 10.47% to 7.47%, but rose again to 8.07% by 2022, reflecting the impact of the COVID-19 crisis. The share of low-income individuals (below 60% of median income) remained stable around 22%, indicating persistent vulnerability. Despite rising average income, inequality remained high (Gini around 32–33%), limiting the effectiveness of growth in reducing poverty.

This is consistent with Kakwani et al. (2000), Bergstrom (2020), Wan and Wang (2019), and FOSU (2017), who highlight how entrenched inequality dampens poverty-reducing gains from growth, especially during external shocks. In Italy, redistribution has helped only marginally, leaving inequality largely unaddressed.

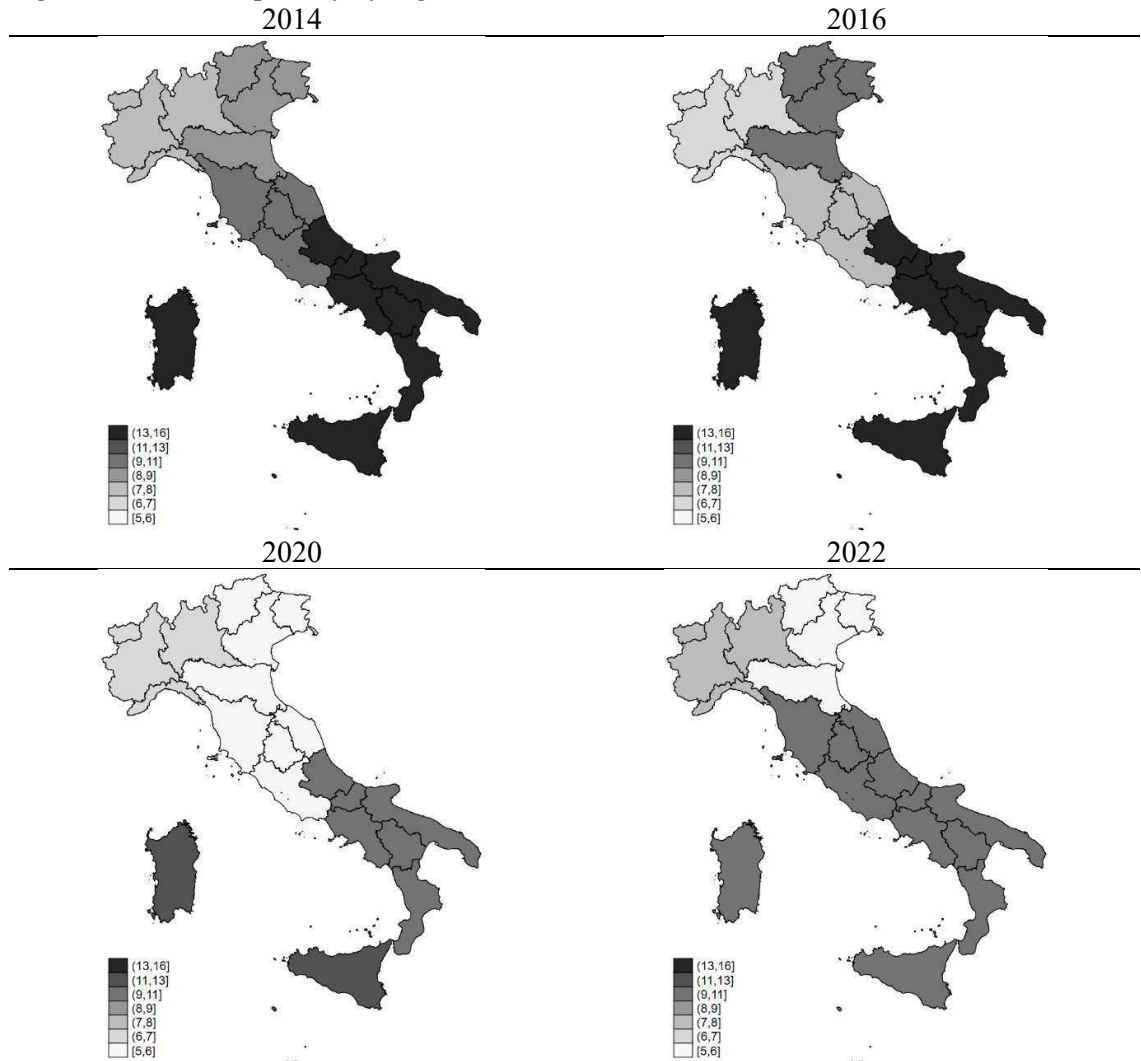
Table I – Summary statistics

	2014	2016	2020	2022
<i>1st decile</i>	6455.8	6303.7	7201.9	8771.8
<i>1st quartile</i>	10082	10454.9	11113.7	12500.7
<i>Median</i>	15999.3	16581.4	17112.7	19466.0
<i>Mean</i>	17925.3	18584.5	19741.1	22209.8
<i>3rd quartile</i>	22714.6	23584	24442.5	27739.3
<i>9th decile</i>	30472.1	31873.4	33575.9	36680.5
<i>Gini index</i>	32.9	33.5	33.3	32.4
<i>Low-income individuals (60% of median income)</i>	22.3%	23%	21.4%	21.7%
<i>Absolute poverty</i>	10.47%	9.54%	7.47%	8.07%

Source: Bank of Italy – SHIW; ISTAT. Author elaboration

Figure 1 shows persistent regional disparities in absolute poverty, with Southern Italy consistently worse off than the North, reflecting long-standing economic dualism (LOMBARDO, 2010). As GOH et al. (2009) argue in the context of China, reducing regional inequality is crucial to making poverty reduction more inclusive. Tackling structural barriers through both national and place-based policies is essential to ensure that growth benefits reach the most vulnerable.

Figure 1 – Absolute poverty by region



Source: Bank of Italy – SHIW; ISTAT. Author elaboration

3. Methodology

To observe empirically how inequality impacts poverty, the decomposition method proposed by Datt and Ravallion (1992) is used in this paper. This method, although widely utilized in developing countries such as India and Brazil, as demonstrated by Datt and Ravallion (1992) and subsequent studies, represents a pioneering effort in developed country contexts where growth and redistribution mechanisms operate under different structural conditions. Notable works employing this methodology include analyses of poverty dynamics in Sri Lanka (Ranathunga, 2017), Ethiopia (Hailu and Nagaraja, 2017), and Cameroon (Baye, 2010). These studies have consistently highlighted the significance of distributional changes in mediating the effects of economic growth on poverty. However, its application in Italy underscores an innovative extension of this analytical framework, aiming to dissect the intricate interplay between regional disparities, income distribution, and poverty outcomes within a developed economy.

The Datt-Ravallion decomposition method provides a rigorous tool to disentangle the growth and redistribution effects on poverty measures over time. The approach is grounded in the mathematical decomposition of changes in poverty, considering variations in average income (growth effect) and changes in the Lorenz curve, which represents income distribution (redistribution effect). The fundamental formula for the decomposition is expressed as:

$$\Delta P = G + D + E \quad (1)$$

Where ΔP represents the change in poverty, G denotes the growth effect, D is the redistribution effect, and E is the residual term that ensures the decomposition's consistency. More in detail, the growth component isolates the influence of income growth on poverty by holding the initial Lorenz curve (distribution of income) fixed. Mathematically, it is calculated as the difference in poverty measures that would result from a change in the mean income level while maintaining the income distribution unchanged.

Formally:

$$G = P(\mu_1, L_0) - P(\mu_0, L_0) \quad (2)$$

where:

- P is the poverty measure (e.g., headcount ratio, poverty gap).
- μ_1 and μ_0 represent the mean income in the final and initial periods, respectively.
- L_0 is the Lorenz curve in the initial period.

The redistribution component measures the effect of changes in income distribution on poverty, keeping the mean income constant at the initial level. This component reflects the direct impact of redistribution policies or shifts in inequality. Formally:

$$D = P(\mu_0, L_1) - P(\mu_0, L_0) \quad (3)$$

where:

- L_1 is the Lorenz curve in the final period.

The residual term adjusts for the interaction between growth and redistribution effects. This term ensures that the decomposition accurately reflects the total change in poverty, capturing any non-linearities or overlapping effects that arise when both the mean income and income distribution change simultaneously. Formally:

$$E = [P(\mu_1, L_1) - P(\mu_0, L_1)] - [P(\mu_1, L_0) - P(\mu_0, L_0)] \quad (4)$$

The implementation of decomposition relies on parameterized poverty measures and Lorenz curves. Commonly employed measures include the headcount ratio, poverty gap index, and Foster-Greer-Thorbecke indices. For income distribution, parametric Lorenz curve models such as the Beta or General Quadratic functions are utilized to estimate distributional changes accurately.

In the context of this analysis on Italy, poverty changes are evaluated using income data from the SHIW database and poverty thresholds defined by ISTAT. These thresholds incorporate regional cost-of-living variations and provide a granular understanding of poverty dynamics. The decomposition is conducted over the selected period, leveraging this robust dataset to quantify the contributions of growth and redistribution.

This methodological framework not only provides insights into the poverty-reducing effects of economic growth and redistribution policies but also highlights the critical role of inequality in moderating these outcomes. By applying this method in Italy, the study advances the empirical literature on poverty analysis, shedding light on the complex interplay of economic factors in a developed country setting.

4. Results

This section examines the contributions of economic growth ("growth effect") and redistribution ("redistribution effect") to the reduction of absolute poverty in Italy between 2014 and 2022. By employing the Datt-Ravallion decomposition method, the results highlight the interplay of these two mechanisms at the national and regional levels, providing critical insights into how structural and policy factors have shaped poverty dynamics during this period. Table 1 reports the evolution of absolute poverty at the national level, showing a significant decline from 10.47% in 2014 to 7.47% in 2020, followed by a partial rebound to 8.07% in 2022 due to the socioeconomic disruptions caused by the COVID-19 pandemic. Over the full period, economic growth emerged as the primary driver of poverty reduction, enabling substantial income gains for households and lifting many individuals above the poverty line. The redistribution effect, while smaller in magnitude, played a critical role in ensuring that the benefits of growth reached lower-income groups, thereby amplifying its poverty-reducing impact. The complementarity of growth and redistribution observed during this period aligns with the framework proposed by Bourguignon (2004), which emphasizes the importance of equitable growth for sustained poverty reduction. However, the Gini index, which remained relatively stable at 32–33%, indicates persistent inequality, a factor that constrained the overall effectiveness of both growth and redistribution in reducing poverty.

The data in Appendix Table A.1 provide further insight into the specific contributions of growth and redistribution during key subperiods. From 2016 to 2020, the growth component accounted for a substantial reduction in the headcount poverty index (-0.137), but this progress was partially offset by the redistribution effect (+0.090). The pandemic years (2020–2022) saw a reversal in poverty reduction trends, with redistribution mitigating some of the negative effects of reduced economic activity. These findings align with Kakwani et al. (2000), who highlight the reduced responsiveness of poverty to growth in contexts of high inequality.

Figure 2 – Datt-Ravallion headcount decomposition – 2014-2022

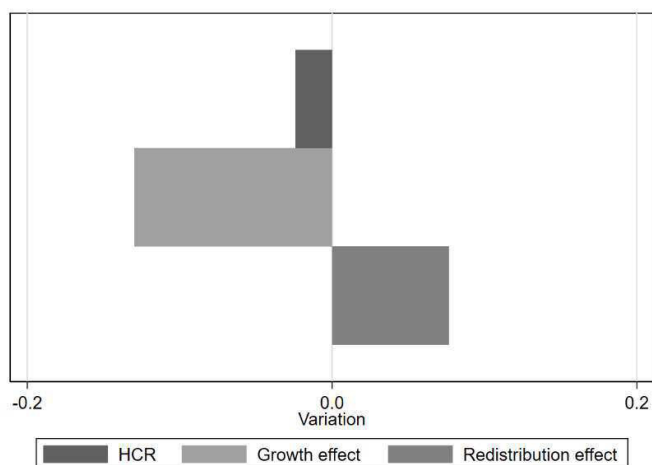
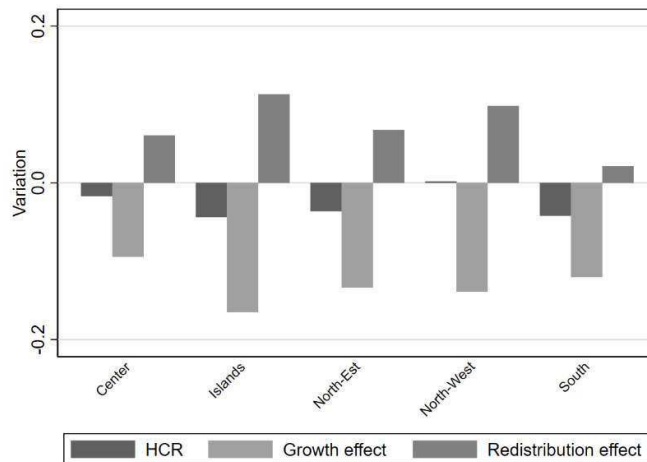


Figure 3, coupled with the regional data in Appendix Table A.2, sheds light on the unequal distribution of poverty-reduction effects across Italy’s regions. While the North-West and North-East experienced substantial growth-driven reductions in poverty, the largest absolute growth effect in 2016–2022 is observed in the Islands (−0.177), highlighting significant regional heterogeneity. For example, in the North-West, the growth component accounted for a -0.153 reduction in the poverty headcount from 2016 to 2022, while redistribution added a smaller but positive contribution of +0.098.

In contrast, the South and Islands regions exhibited a heavier reliance on redistribution, as growth-driven poverty reduction was constrained by structural barriers such as lower economic development, limited infrastructure, and higher informality in the labor market. In the Islands, redistribution contributed +0.114 to poverty reduction during 2016–2022, while growth effects were weaker (-0.177), underscoring the critical role of redistributive policies in these regions. These patterns reflect findings by ISTAT (2021), which highlight the persistence of regional disparities as a defining characteristic of Italy’s poverty dynamics.

Figure 3 – Datt-Ravallion headcount decomposition – 2014-2022, by region



The combined findings from Figures 2 and 3, as well as Appendix Tables A.1 and A.2, emphasize the importance of addressing structural inequalities to enhance the effectiveness of both growth and redistribution. While growth remains a key driver of poverty reduction, its impact is significantly moderated by inequality, particularly in regions with weaker economic fundamentals. Redistribution complements growth by providing a safety net for the most vulnerable, but it cannot fully compensate for the absence of inclusive growth in disadvantaged areas.

The analysis also underscores the vulnerability of growth-driven poverty reduction to external shocks. During the pandemic years, redistribution played a pivotal role in softening the blow of reduced economic activity, highlighting the value of robust social safety nets. However, the limited progress in reducing inequality, as evidenced by the stable Gini index, suggests that stronger, more targeted redistributive policies are needed to sustain long-term poverty alleviation.

The results suggest that achieving sustained poverty reduction in Italy requires a dual-pronged approach. Policymakers must prioritize inclusive economic growth while simultaneously implementing redistributive measures tailored to regional disparities. In the South and Islands, targeted investments in infrastructure, education, and labor market integration are critical to overcoming structural barriers. In the North, where growth effects are more pronounced, redistribution should focus on consolidating gains and addressing emerging vulnerabilities.

The complementary roles of growth and redistribution observed in this analysis align with the broader literature, including the works of Ravallion and Chen (2003) and Bourguignon (2004), which underscore the importance of integrating growth and equity objectives. A more regionally sensitive approach to poverty reduction could maximize the impact of both mechanisms, ensuring that economic progress translates into tangible benefits for all segments of the population.

5. Discussions and conclusions

The relationship between growth, inequality, and poverty is complex, necessitating a multi-dimensional approach to effectively address poverty. The findings from this study indicate that while economic growth remains a primary driver of poverty reduction in Italy, its efficacy is tempered by persistent inequality and regional disparities. To sustain and enhance poverty alleviation efforts, targeted policy reforms are essential.

The Datt-Ravallion decomposition highlights the complementary roles of growth and redistribution in poverty reduction. From 2014 to 2022, growth drove poverty reduction nationally, with a particularly strong impact in Italy's North, where economic structures are more robust. However, persistent inequality, as reflected in the relatively stable Gini index (32–33%), limited the full potential of growth. Redistribution partially mitigated this limitation, especially in the South and Islands, where structural barriers hindered the poverty-reducing effects of growth. These findings align with existing literature, which emphasizes that inequality acts as a filter that weakens the transmission of growth benefits to the poor (Ravallion & Chen, 2003; Bourguignon, 2004).

Regional disparities remain a defining challenge in Italy's poverty dynamics. The North benefitted more from growth-driven reductions in poverty, while the South and Islands relied heavily on redistribution. This regional dualism reflects deeper structural inequalities, such as labor market informality and limited infrastructure, which impede the effectiveness of growth in reducing poverty in disadvantaged areas (ISTAT, 2021; Lombardo, 2010).

Policies should focus on fostering inclusive economic development, particularly in lagging regions. Investments in infrastructure, education, and labor market integration are crucial to reducing structural barriers and enhancing the poverty-reducing potential of growth (Kalwij & Verschoor, 2007). Sectoral policies that promote job creation in high-value industries could help align regional growth trajectories with national priorities. Redistribution mechanisms, such as strengthened social safety nets, conditional cash transfers, and unemployment benefits, should be designed to shield vulnerable populations from economic shocks. Moreover, improving access to quality public services like healthcare and education is vital for addressing long-term poverty.

Addressing Italy's economic dualism requires region-specific strategies. In the South and Islands, targeted redistributive interventions—such as subsidies for small businesses and support for local development projects—could enhance economic opportunities and foster growth. For the North, efforts should prioritize sustaining growth while addressing emerging inequalities, such as wage disparities and housing affordability. Aligning growth strategies with the needs of the poor is critical to maximize the poverty-reducing impact of economic progress. Pro-poor growth strategies, which prioritize sectors and regions with high poverty incidence, could ensure that growth benefits are more equitably distributed. These strategies align with global evidence suggesting that poverty reduction is most effective when growth disproportionately benefits the poor (Adams, 2004; Dollar & Kraay, 2002).

The interplay of growth, inequality, and redistribution in Italy underscores the need for a nuanced approach to poverty alleviation. Growth remains a central pillar of poverty reduction,

but its impact is contingent on addressing structural and regional disparities. Redistribution complements growth, particularly in contexts of high inequality and external shocks, by providing critical support to the most vulnerable.

Italy's policy landscape must prioritize inclusive and regionally sensitive growth strategies supported by robust redistributive mechanisms. By integrating equity objectives into economic policymaking, Italy can design more effective strategies to foster sustainable and equitable development. These findings contribute to the broader discourse on poverty reduction, reinforcing the importance of addressing structural barriers and regional disparities to achieve meaningful progress.

6. References

- Adams, R. H. (2004). Economic growth, inequality and poverty: Estimating the growth elasticity of poverty. *World Development*, 32(12), 1989–2014.
- Bergstrom, K. (2020). The Role of Inequality for Poverty Reduction. *World Bank Policy Paper*.
- Bourguignon, F. (2004). The poverty-growth-inequality triangle. *World Bank Policy Research Working Paper (28102)*.
- Cutillo, A., Raitano, M., & Siciliani, I. (2020). Income-based and consumption-based measurement of absolute poverty: Insights from Italy. *Social Indicators Research*.
- Dollar, D., & Kraay, A. (2002). Growth is good for the poor. *Journal of Economic Growth*, 7(3), 195–225.
- European Commission. (2021). Measuring and monitoring absolute poverty (ABSPO) – Final Report. *Luxembourg: Publications Office of the European Union*.
- Fosu, A. K. (2017). Growth, inequality, and poverty reduction in developing countries. *Elsevier*.
- Goh, C., Luo, X., & Zhu, N. (2009). Income growth, inequality, and poverty reduction in China. *China Economic Review*.
- ISTAT. (2021). Rapporto Annuale: L'Italia e le regioni. *ISTAT Publications*.
- Kalwij, A., & Verschoor, A. (2007). Inequality, growth and poverty: Macroeconomic evidence on pro-poor growth. *Economics Letters*, 94(1), 128–131.
- Kakwani, N. (1993). Poverty and economic growth with application to Côte d'Ivoire. *Review of Income and Wealth*, 39(2), 121–139.
- Kakwani, N., Prakash, B., & Son, H. (2000). Growth, inequality, and poverty: An introduction. *Asian Development Review*.
- Lombardo, G. (2010). Growth and inequality effects on poverty reduction in Italy. *Munich Personal RePEc Archive Paper No. 21232*.
- OECD. (2017). Employment Outlook 2017. *OECD Publishing*.
- Ravallion, M., & Chen, S. (2003). Measuring pro-poor growth. *Economics Letters*, 78(1), 93–99.
- Save the Children. (2021). Child poverty in Italy: A report. *Save the Children Italy*.
- Wan, G., & Wang, C. (2019). Asian transformations: Poverty and inequality. *OAPEN*.