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Massimo Baldini*, Elizabeth J. Casabianca**,
Elena Giarda***, Lorenzo Lusignoli****

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* University of Modena and Reggio Emilia
CAPP, Centre for the Analysis of Public Policies and RECent
Address: Viale Berengario 51, 41121, Modena, Italy
Email: massimo.baldini@unimore.it

** Prometeia & DiSeS (Polytechnic University of Marche)

*** Prometeia & Cefin (University of Modena and Reggio Emilia)

**** Cisl (Department of Social and Health Policies)

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Dipartimento di Economia Marco Biagi
Università degli studi di Modena e Reggio Emilia
Via Berengario 51 | 41121 Modena
tel. 059 2056711 | fax. 059 2056937
info.economia@unimore.it | www.economia.unimore.it

The impact of REI on Italian households' income:
A micro and macro evaluation

Massimo Baldini[a], Elizabeth J. Casabianca[b], Elena Giarda[c], Lorenzo Lusignoli[d]

[a] University of Modena and Reggio Emilia & CAPP

[b] Prometeia & DiSeS (Polytechnic University of Marche)

[c] Prometeia & Cefin (University of Modena and Reggio Emilia)

[d] Cisl (Department of Social and Health Policies)

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Abstract

In 2017, Italy's government introduced a minimum income scheme, the so-called Income inclusion programme (REI, *Reddito di inclusione*). REI is a selective, means-tested and conditional scheme that aims at supporting incomes of those more in need. Its structure was recently modified to reach a larger percentage of the poor. In this paper, we simulate the impact of REI on household incomes and evaluate its effects with respect to poverty alleviation and inequality reduction. The analysis is based on the 2015 wave of IT-SILC, the Italian module of European Union Statistics on Income and Living Conditions. Our results show that, under full take-up, REI will reach 45.8% of households in absolute poverty and 22.5% of those in relative poverty. However, it has a mild impact on the incidence of both types of poverty, while it is more successful in reducing their intensity. We also estimate that REI would contribute to raising GDP by 0.14 percentage points through an increase in private consumption.

Keywords: microsimulation, minimum income schemes, poverty, Italy.

JEL classification: D31, I32, I38.

Corresponding author: Massimo Baldini, University of Modena and Reggio Emilia, Department of Economics Marco Biagi, Viale Berengario 51, 41121 Modena, Italy, Phone: +39 059 2056873, E-mail: massimo.baldini@unimore.it.

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1. Introduction

Euro area economy's health status has improved since the outburst of the financial crisis. After the sharp contraction in 2009, average GDP regained its pre-crisis level in 2014, while unemployment is on a declining trend from the 2009 peak, but still high. Despite this recent progress, poverty and social exclusion rates are higher than a decade ago, and inequality is rising.

The economic and political debate of the last few years has focused on ways of tackling these issues and the political agenda of European institutions and most member states includes addressing at-risk-of-poverty, in-work poverty and inequality. In February 2013, the European Commission published the Social Investment Package to address the growing social risks arising from the crisis (EC, 2013). Furthermore, in April 2014 the Commission recommended the implementation of well-designed and adequate income support schemes as tools to fight poverty and increase labour market participation, and therefore contribute to reaching the Europe 2020 target of reducing the number of people in poverty and social exclusion by at least 20 million by 2020 (EC, 2014).

The debate also focuses on the most appropriate form of income support, whether a minimum-income type of instrument or a basic income one. The two schemes are formally and ideologically very different. Minimum income is a selective, or categorical, conditional and means-tested measure, while basic income is universal, unconditional and not means-tested. From a theoretical point of view, they entail pros and cons, but, from a practical point of view, minimum income is the one that has been and is currently being implemented in most countries.

Despite good intentions, Euro area countries are afflicted by increasing at-risk-of-poverty rates and social cohesion remains a challenge. On average, both the incidence of relative poverty and the percentage of people in poverty or social exclusion increased during the years of the crisis. Additionally, there is evidence of an increasing trend of in-work poverty. At European level, some first pale positive signals appeared between 2014 and 2016, with a slight reduction in the proportion of poor and socially excluded individuals and the stability of in-work poverty rates. The widespread concern that the economic crisis has widened the gap between the rich and the poor is also confirmed by rising inequality within many countries. A slow and scattered structural wage growth, which prevented recovery of labour incomes especially among poorer households, may be among the determinants of these trends. Moreover, redistribution policies did not have the space they deserved because of public finance constraints due to the long-lasting crisis.

The financial crisis first, and the sovereign debt crisis then, left a heavy legacy to Italian households. In Italy, per-capita disposable income in real terms started to recover only from 2015 onwards, despite not having reached the pre-crisis level yet and having fallen behind other European countries. Both the incidence of relative poverty and the in-work poverty rates are higher than the European average and grew during the crisis.

Within this context, the introduction of new minimum income schemes or the revision of pre-existing ones is an important part of the poverty reduction programme as presented in the Social Investment Package. At the beginning of the 2010s, Italy was the only country in Europe, together with Greece, lacking a nation-wide transfer targeted to poor households.

In March 2017, the Italian Senate passed an enabling act on measures to eradicate poverty. This opened the way to the introduction, at national level, of a form of minimum income scheme called REI, *Reddito di Inclusione*. A rapid sequence of legislative steps gradually extended this measure, so that starting from July 2018 REI will become a universal guaranteed minimum income, subject to a test of means and conditional on participation in a job placement scheme.

The aim of this paper is to assess the effectiveness of the newly introduced income support measure with respect to poverty alleviation, inequality reduction and GDP growth. We also quantify REI's impact on household income and investigate whether it reaches the weakest segments of the population, such as children. We also simulate an alternative scenario in which the threshold of the means-testing criterion is modified and assess REI's new cost and coverage.

Our results show that, with full take-up, REI is expected to have a cost of around €2.4 billion and to reach 3.8% of households. The impact of REI on absolute and relative poverty incidence is very mild, despite the measure reaches 45.8% of households in absolute poverty and 22.5% in relative poverty. Instead, it is more successful in reducing the intensity of poverty. In addition, REI is expected to benefit a large fraction of one-member households, which represent almost 43% of the total recipients. Finally, we also estimate that it would contribute to raising GDP by 0.14 percentage points through an increase in private consumption.

The rest of the paper is organised as follows. Section 2 provides a brief introduction to minimum income schemes both in theory and in their implementation in some European countries. Section 3 discusses the evolution of poverty in Italy during the crisis, focusing both on the general trends and on some sub-groups of the population. Section 4 provides an account of the political and economic debate that led to the introduction of REI and evaluates its characteristics and limitations, also in the context of the recent evolution of income transfers in Europe. Section 5 assesses REI's effectiveness in supporting low incomes and quantifies its potential impact on GDP growth. We also focus on the effect of REI on two specific groups of the population: children, for which the risk of poverty dramatically increased in the last decade, and singles, which represent a significant, but often neglected, component of the poor population. In addition, this section assesses the impact of an alternative scenario, which relaxes the means-testing criterion. Finally, Section 6 concludes with a summary of the main findings and discusses what remains to be done in the context of anti-poverty policies in Italy.

2. Income support schemes: theory and practice

There is a consensus on the need to introduce initiatives to achieve the goals of the Europe 2020 strategy, namely to lift out of poverty and social exclusion at least 20 million people. To this end, the European Commission recommended the implementation of well-designed and adequate income support schemes. This has reinforced the economic and political debate on the most appropriate form of income support measures to be implemented. The aim of this section is twofold. First, outline the main types of income support schemes introduced by the theoretical literature. Second, briefly describe some country experiences on the implementation of income support measures, with a focus on European economies.

2.1 Some theoretical background on income support schemes

The theoretical literature on income support schemes puts forth two main types of measures: (i) minimum income and (ii) basic income.[1] In public discussions, the term minimum income and basic income are often used interchangeably, given that they share the same goal of reducing, if not eradicating, poverty. The two schemes, however, rely on profoundly different principles, concerning (a) selectivity vs. universalism and (b) conditionality vs. unconditionality.

Minimum income is a selective (or categorical), conditional and means-tested scheme. It is selective because it is targeted to the poor; it is conditional because recipients have to prove their commitment to finding a job or participating in activation programmes (e.g. employment, training courses, etc.); it is means-tested because entitlement depends upon the amount of income and wealth owned by the household.[2] Instead, a basic income is "a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirements".[3] It is, therefore, a universal policy

[1] Basic income is alternatively referred to as *citizen's income* or *basic income guarantee*.

[2] For a critical review see, among others, Toso (2016).

[3] Basic Income Earth Network, www.bien.org.

granted to all citizens, regardless of their socio-economic status, is unconditional as it is granted to individuals without the need to meet any particular requirement and is not means-tested.[4]

Basic income and minimum income represent only two of the many anti-poverty measures proposed so far. Table 1 provides a guide for classifying all other possible programmes to tackle poverty: basic income, social dividend, participation income (Atkinson, 1996), a negative income tax (Friedman, 1962; Tobin et al., 1967) and minimum income.[5]

Table 1 Broad categories of anti-poverty programmes

	Basic Income	Social Dividend	Participation Income	Negative Income Tax	Minimum Income
Universal	✓	✓	✓	□	
Selective				✓	✓
Unconditional	✓	✓		✓	
Conditional			✓		✓
Means-tested				✓	✓

Source: Prometeia (2017)

2.2 Minimum income and basic income: country experiences

All European countries have a minimum income scheme or related types of non-contributory means-tested programmes to ensure a minimum standard of living (for an overview see European Parliament, 2017). Basic income programmes have been applied almost only on an experimental basis far, also because they would involve a total restructuring of a country's welfare system. However, there are some scattered examples around the world. In the following, we briefly describe some of these country experiences.

The UK has a long tradition of income support measures. Income Support was introduced in the late 1980s. It is categorical and means-tested, but unconditional because it does not require recipients to be actively searching for a job. The UK is currently restructuring its welfare system and a number of measures, among which Income Support, are being incorporated within one single scheme, Universal Credit, which should improve incentives to work and reduce opportunistic behaviour.

Other relevant examples are those of France and Germany, which reformed their minimum income schemes in the second half of the 2000s. The French Active Solidarity Income is means-tested and supports families with an income below subsistence level. It creates an incentive to find work for recipients who belong to households without a working member, since they cannot turn down a job

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[4] For an extensive discussion on basic income see, among others, van Parijs and Vanderborght (2017).

[5] For an overview, see Toso (2016) and Granaglia and Bolzoni (2016).

more than twice without being excluded from the programme. Under the German Unemployment Benefit scheme, recipients are unemployed who cannot benefit from unemployment related benefits anymore, low-income workers and first-time job seekers. The scheme is means-tested and the recipients continue to receive the full payment provided they are participating in some form of social or work activity. In addition, Social Support sustains the income of poor individuals who are unable to work more than three hours a day, mainly the disabled and elderly.

Just after the outburst of the global financial crisis, Spain reinforced its social safety net at the national level with three minimum income schemes. These are: (i) Active Insertion Income; (ii) Programme for vocational re-qualification of people having exhausted the unemployment protection; (iii) and Extraordinary Activation Programme. Each programme targets specific vulnerabilities and they aim at improving the recipients' employability through compulsory active job searching (European Parliament, 2017).

As shown in Table 2, the minimum income schemes described above vary according to their cost as well as in the number of recipients and poverty reducing effects. The minimum income scheme recently introduced in Italy (see Section 4) must be evaluated keeping these numbers in mind. Worthy of note is that minimum income schemes do not generally allow recipients to escape poverty. Only 47%, 55% and 63% of poor households are recipients of income support measures in the UK, France and Germany, respectively. The reason is that the income threshold that entitles individuals to receive a minimum income is usually lower than that used by national statistical offices or Eurostat to build poverty indicators. Consequently, these programmes do not guarantee recipients to reach the official poverty threshold. Nevertheless, they significantly reduce the intensity of poverty.

Table 2 Minimum income schemes in some EU countries

	UK	**France**	**Germany**	
	Income Support	Revenu de Solidarité Active	Arbeitslosengeld II	Sozialhilfe
Total cost	£2.6 billion	€7 billion	€15 billion	€1.5 billion
Number of recipients	715 thousand	4.9 million	4.4 million	1.7 million
Recipient households (% of the working population)	0.3%	3.3%	-	0.5%
Recipient households (% of poor, working age households)	47.0%	55.0%	-	63.0%
Minimum income levels as a ratio of median income (couple w/ two children)	35.0	28.0	-	33.0

Source: Toso (2016)

Finally, three examples of basic-income-type projects: Alaska, Finland and the Netherlands. Alaska's Permanent dividend represents, so far, the closest scheme the world has to a basic income. Since 1982 each citizen who has resided in Alaska for more than a year receives a yearly payment based on the revenues from the State's oil activity (Jones and Marinescu, 2018). Finland and the Netherlands are currently undertaking basic income pilot projects. In Finland, the main goal is to study the effects of basic income on labour supply. The experiment in the Netherlands is only limited to the city of Utrecht but with the idea of extending it to other Dutch cities.

3. Poverty during and after the great recession in Italy

The great recession that began with the 2007 financial crisis affected with particular intensity the Italian economy, which was already in precarious conditions due to a prolonged stagnation started at the beginning of the 1990s. Over the period from 2007 to 2013, Italy's per-capita GDP fell by 7.5% and the unemployment rate doubled, from 6.1% to 12.1%. After a brief recovery in 2011, a new, more severe recession took place in 2012 and 2013, not caused by the fall in international demand as the previous one but largely by the implementation of austerity policies. Indeed, the government increased the taxation level to reduce the primary deficit and regain confidence in international financial markets, cutting disposable incomes. The recession produced a second worsening in households' living standards. The lack of a national safety net for low incomes made the situation worse.

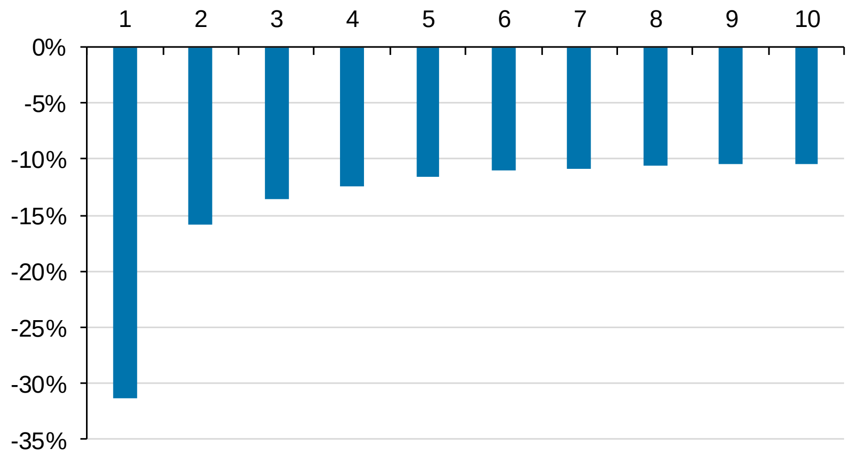
The effects of the recession on incomes and poverty are illustrated using three indicators: (i) the average change in equivalised disposable income by decile, (ii) the incidence of relative poverty, and (iii) the incidence of absolute poverty. The unit of measure for the first two indicators is equivalised disposable income, i.e. total household disposable income that accounts for household composition by means of an equivalence scale.[6] The third indicator is instead based on household consumption.

In reference to the first indicator, over the period 2007-2014 equivalised income fell for the whole population (Figure 1). The reduction was particularly strong for the poorest decile, whose average

[6] In line with Eurostat, we use the so-called modified OECD equivalence scale, which attributes a weight of 1 to the first adult, a weight of 0.5 to the second and each subsequent person aged 14 and over, and a weight of 0.3 to each child aged under 14. To obtain equivalised income, disposable income is divided by the equivalence scale and then attributed equally to each member of the household.

equivalent income fell by nearly one third, while the loss of the top decile was around 10%. This asymmetric drop was reflected in an increase of the Gini index from 0.312 in 2007 to 0.331 in 2015.[7]

Figure 1 Percentage change in equivalised income by deciles, 2007-2014



Source: authors' calculations on IT-SILC data

As for the second indicator, the incidence of relative poverty increased from 18.9% in 2007 to 20.6% in 2015.[8] An increase of 1.7 percentage points in eight years (corresponding to a 9% increase) is not negligible, since it affected almost 1 million people. However, it may not reflect the adverse consequences of the recession on household income. The significant reduction in income over the same period determined a fall of the poverty line as well, therefore limiting the increase in the number of individuals below the threshold, even if the general living conditions worsened by a greater extent.

If we observe the trend of relative poverty by age group, poverty increased for all age classes with the exception of the elderly, for which the rate fell by nearly 6 percentage points between 2007 and 2015 (Figure 2). This can be partly explained by the fact that between 2008 and 2013 the labour market lost about one million jobs. As a consequence, poverty rose more for working-age individuals and their children than for the elderly, whose economic conditions were preserved by the welfare system.

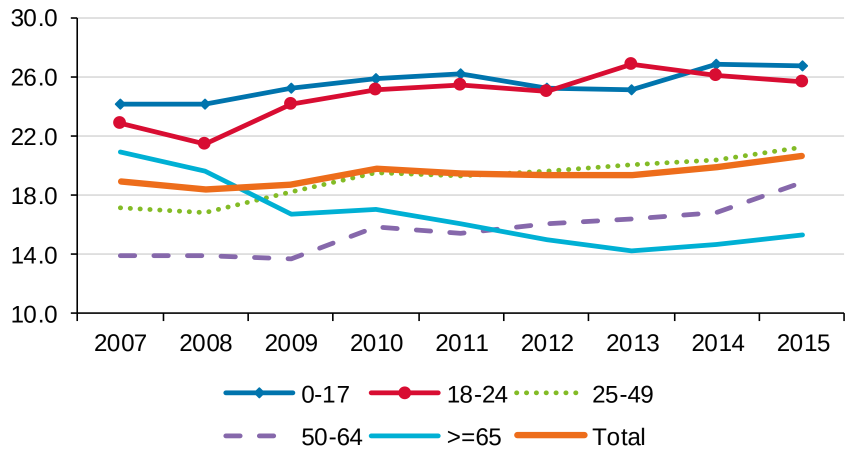
The sensitivity of the poverty line to the general evolution of the economy makes a relative measure not very informative during periods of sharp changes in average income, such as phases of recession or expansion. Therefore, it is useful to resort to the incidence of absolute poverty, our third indicator,

[7] Source: Eurostat database. In EU-SILC, income data refer to the year prior to the survey year. Differently from Eurostat, for both the Gini index and relative poverty rates we report values corresponding to the income reference period.

[8] The incidence of relative poverty (corresponding to the Eurostat at-risk-of-poverty rate) is the share of people with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income.

which is based on poverty lines that do not change with average or median income on a year-to-year basis.

Figure 2 Incidence of relative poverty among individuals by age class (%)



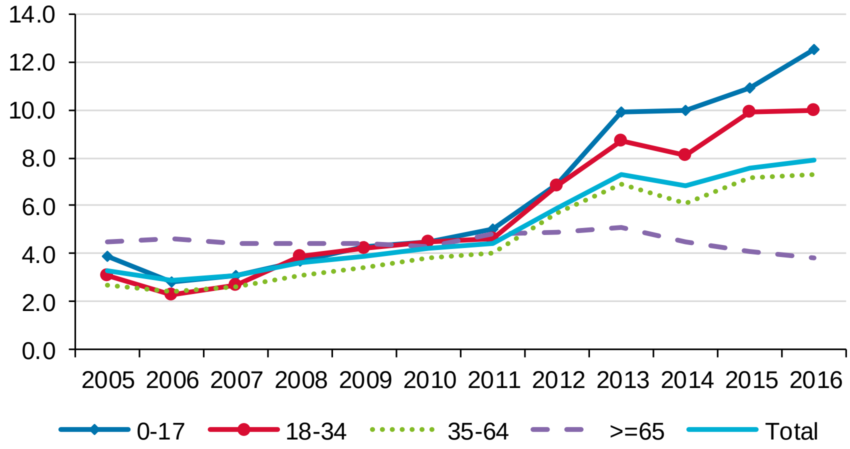
Source: Eurostat

Recently, the Italian national statistical institute (Istat) has set new criteria to compute the incidence of absolute poverty, following the budget standard approach (Istat, 2009). The poverty line corresponds to the value of a bundle of goods and services that a given household must consume during a month in order to obtain a minimally acceptable standard of living. The line varies according to the composition of the household (number and age of family members), and incorporates price level differentials by geographical areas (North, Centre and South) and type of municipality (more than 250,000 inhabitants, between 50,000 and 250,000, or less than 50,000). For example, the 2016 poverty line for a 4-component household (2 children aged 4-10 years and 2 adults aged 18-59 years) living in a great town in the North was set at 1630 euro per month (including rent), while the line for the same type of household, but living in a small centre of the South, was set at 1188 euro. The whole set of lines is updated annually with inflation, using coefficients that vary across regions and dimensions of the municipality.

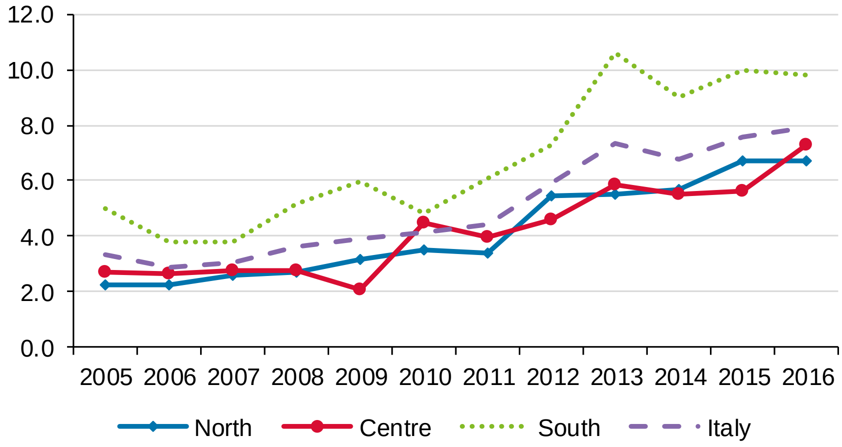
While the incidence of relative poverty increased only by one tenth, the share of Italians in absolute poverty more than doubled during the recession, from 3.1% in 2007 to 7.9% in 2016. Before the recession, the elderly (those with at least 65 years of age) represented the poorest age class (Figure 3a). Their risk of absolute poverty, however, remained constant during the whole decade, while all other age classes exhibit a significant increase in the incidence of absolute poverty. The younger class, from 0 to 17 years of age, is the poorest, with 12% of children (i.e. 1.2 million) living in absolute poverty in 2016. The rise in poverty rates is common to all the areas of the country (Figure 3b), and is particularly intense for households whose main earner is a blue collar or an unemployed (Figure 3c). Absolute poverty increased significantly also for the self-employed, while it remained stable for pensioners.

Figure 3 Incidence of absolute poverty (%)

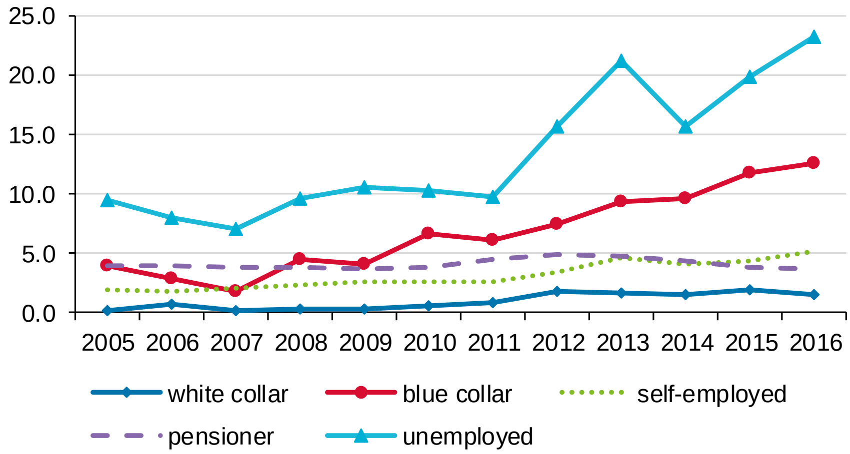
(a) by age class



(b) by area of residence



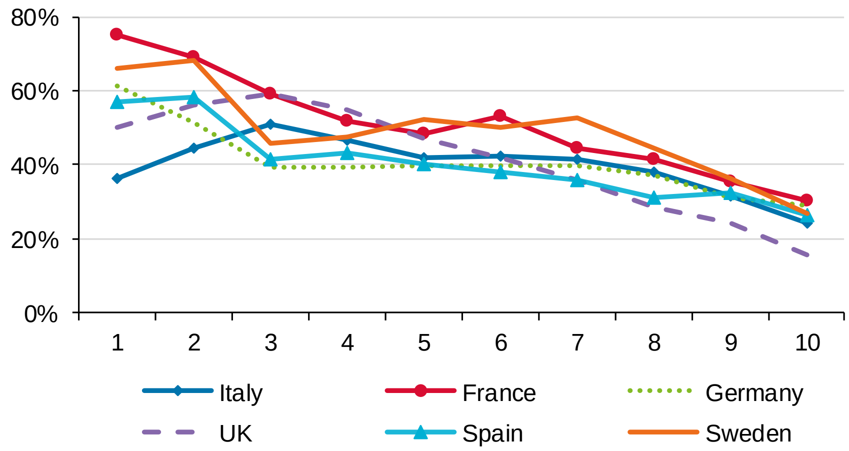
(c) by occupational status of the main earner



Source: Istat.
Data in panels a) and b) refer to individuals, data in panel c) to households.

The sharp worsening of the living conditions of the poor was the result not only of the recession, but also of the weakness of Italy's safety net. According to Eurostat social protection statistics, in 2014 Italy allocated 29.9% of its GDP to social protection, more than the EU as a whole. However, only 12.3% of this expenditure is directed towards family/children, unemployment, housing and social exclusion, against an average of 17.7% in the EU. Italian expenditure against poverty and social exclusion is not only low, but also badly targeted. Figure 4 shows for each decile of equivalised income the share of households receiving at least one transfer among unemployment, disability, education, family/children, housing, and social exclusion. Less than 40% of Italian households in the poorest decile receive at least one of the transfers, a share that is significantly lower than the corresponding one for the other European countries. Worthy of note is that in Italy the probability of receiving at least one transfer is the same for the poorest 10% and for the middle class.

Figure 4 Share of households receiving at least one transfer, by deciles of equivalised income



Source: authors' calculations on EU-SILC 2014.

4. The path towards the introduction of a minimum income scheme in Italy

Faced with the rapid worsening of the socio-economic conditions of many households, the policy reaction to the crisis was slow and uncertain, owing particularly to the precarious conditions of Italy's public finances and the high level of its public debt, which prevented the government from undertaking expansionary policies. During the first period of the crisis, between 2008 and 2010, the government allowed a strong increase in expenditure for unemployment benefits, and extended the duration of transfers granted to employees of firms in a situation of temporary crisis (Cassa integrazione guadagni). In 2011, the government was forced to adopt austerity policies that aggravated the economic cycle and contributed to a second recession in 2012 and 2013, which in Italy was worse than the previous one. Expenditure on public pensions kept growing, due to the ageing of the population and the political choice to preserve the elderly from the effects of the recession, although many pensions continue to be more generous than the amount that would actuarially correspond to paid contributions. During the years preceding the economic crisis, policies against poverty were extremely limited, mostly to scattered measures at municipal level. The only attempt to introduce a minimum income scheme at national level, between the end of the 1990s and the beginning of the new millennium, resolved into an experimental measure confined only to some areas and thereafter interrupted in 2001 when the centre-right parties took power.

While before the crisis poverty was a phenomenon typically concentrated in some areas (the South) and among some family types (pensioners, unemployed and households with many children), after 2008 it started to affect the whole country and new types of households, including families with only one child or only one earner. As shown in the previous section, the elderly fared relatively better thanks to pension expenditure, while the strong increase in the unemployment rate worsened the conditions of younger households. The need for a measure able to contrast this trend on a national scale became evident. Cash transfers targeted to specific groups of fragile households, like the elderly poor or the disabled, were of course already in force, but a universal scheme able to ensure a general safety net in case of income loss was absent. In 2008, the government introduced the Social Card, a subsidy of 40 euro per month reserved to households with low income and at least one member aged below 3 years or 65 or over. This measure was not universal and its amount was too low to produce a noticeable difference in the living standards of the beneficiaries. Furthermore, it did not provide for any measure towards active inclusion.

In 2012, the government allocated a small non-recurring sum (€50 million) to the experimentation of a new minimum income scheme. These resources were used with substantial delay only in 2014 and 2015 for a trial of a "New Social Card" in the 12 most populous towns of Italy. Its amount was much more significant (from €231 per month for a family of two to €404 for families with five or more members). The scheme also made it obligatory to follow a reinsertion program. The measure involved a very restricted number of households (Martelli, 2015). Admission to the scheme was, indeed, excessively selective, due to the simultaneous presence of an economic constraint based on a means test which measured income in a period too far from the moment of the request, and a labor constraint, which required applicants to have just lost their jobs. The long-run poor were excluded by this latter condition, while the new poor did not meet the very stringent means test. Many municipalities did not manage to spend all the available resources, however limited, and the New Social Card had a much lower coverage than expected. Still, although only partly successful, this marked a first attempt to combine an income maintenance scheme with a social or work-related reinsertion path.

In the budget law for 2016, thanks also to pressures from the Alliance Against Poverty – an advocacy group born in 2013 that gathers 37 associations actively involved in the social and political fields[9] – for the first time a structural Fund to contrast poverty and social exclusion was set up. It was initially financed with an endowment of €1 billion per year. In the first year of application, 2016, the Fund provides resources for the "Sostegno per l'inclusione attiva" (SIA, *Support for active inclusion*), a new experimental measure that directly originates from the trial of the New Social Card, and the "Assegno di disoccupazione" (Asdi, *Unemployment cheque*), a transfer targeted to poor households that have exhausted their right to receive the unemployment subsidy. The budget law also established that, as from 2017, the Fund would finance a new structural guaranteed minimum income measure, whose characteristics would be defined by a specific enabling act. In the meantime, due to the length of the planning stage for a national measure against poverty and the need to contain the increasing incidence of poverty, some Regions have autonomously decided to introduce different minimum income schemes. These measures have often been designed with characteristics that are complementary to those of the national SIA scheme.[10] At the end of 2016, thanks to the resources of the new Fund, the Support for Active Inclusion has been extended to the whole country. Initially financed with €750 million, increasing significantly in 2017 to over one billion, this instrument potentially involved around 200,000 households. The scheme is reserved to households with at least one member aged less than 18 years, or with disabled sons or daughters of any age, or with pregnant women. These households must have an indicator of economic situation (Isee) below €3000 per year.[11] The transfer amounts to €80 per month for each member of the household (plus €80 monthly for single parent families). The introduction of SIA is in all respects a large-scale experiment in view of the new instrument provided for by the enabling act associated with the Fund against poverty. The enabling act, approved in August 2017, establishes the introduction of the Reddito di inclusione (REI, *inclusion income*), which will become operative as from January 2018.[12] The role of the Alliance against poverty has been very important, both in obtaining some substantial changes to the enabling

[9] See www.redditodinclusione.it. On the ability of the Alliance to influence government's policies, see Madama and Jessoula (2015).

[10] In the last few years some regions have joined Trentino Alto Adige (where an income support scheme was already in force) in developing minimum income measures at regional level: in 2015 the "Misura attiva di sostegno al reddito" (MIA) in Friuli Venezia Giulia, in 2016 the "Reddito di dignità" (RED) in Puglia, the "Inclusione attiva di sostegno al reddito" in Valle D'Aosta and the "Reddito minimo di cittadinanza" in Molise; in 2017 the "Reddito d'inclusione Sociale" in Sardegna and the "Reddito di Solidarietà" (RES) in Emilia Romagna.

[11] Isee is a combination of income and wealth: in short, its formula is *Isee = (income + 0.2*wealth) / equivalence scale*. The equivalence scale is the number of household members raised to the power 0.65.

[12] Legislative decree n. 147/2017 (www.gazzettaufficiale.it/eli/id/2017/10/13/17G00161/sg).

act during its parliamentary discussion, and in defining, through a memorandum agreement signed with the government, some of the main characteristics of the new scheme.[13] REI is actually a mixture of elements occurring in the SIA and the Social inclusion income originally proposed by the Alliance (Gori et al. 2015).

Starting from 2018, REI replaces the experimental measures so far introduced, i.e. SIA and ASDI. It therefore becomes the first structural and universal minimum income scheme to be applied in Italy. With respect to SIA, REI shows some differences, summarized here. There is a double means test: the household must have Isee lower than €6000, and an income component of Isee lower than €3000. At least in the first year of application, however, the threshold for the income component of Isee is reduced to 2250 euro. Furthermore, the household must not have real assets (excluding the main dwelling) worth more than €20000 nor financial assets worth more than €10000.[14] The transfer is not a fixed amount per member like SIA, but is computed as the difference between the threshold and disposable income. From the latter, it is possible to deduce the amount of the rent paid, one of the most important expenditures for households in poverty. Since rents are generally higher in the North, this deduction enables part of the different cost of living between areas to be taken into account. In short, the annual amount of REI is computed as follows:

$$REI = \alpha * 3000 * S - TR - ISEE_Y$$
$$\text{with } ISEE_Y = Income\ - RENT - 0.2 * EARNINGS,$$

where S is the equivalence scale (1 for single-person households, then 1.57 for two persons, 2.04 for three members, etc.), TR is the amount of the means-tested transfers that the household already receives, $ISEE_Y$ is the income component (expressed in non-equivalent terms) of $ISEE$, obtained by

[13] In particular, the Memorandum specifies the main parameters governing the access to the new scheme and its amount, the introduction of a mechanism to reduce the risks of disincentives to work and the allocation of a significant share of the Fund to the development of inclusion services. It describes all the activities that must be financed in order to strengthen the activation and inclusion paths, stressing the need for municipalities to work together in the definition of the inclusion services, also on the basis of a monitoring process based on a set of well-defined indicators. http://www.lavoro.gov.it/temi-e-priorita/poverta-ed-esclusione-sociale/Documents/Memorandum-Governo-Alleanza-Poverta.pdf).

[14] The threshold on financial assets is €10000 for households of 4 members, €8000 for households with 2 or 3 members, and €6000 for singles.

subtracting from disposable income two main deductions: the rent paid and 20% of earnings (up to €3000 for each earner).[15] The coefficient α is set, at least for 2018, to 75%.

The social inclusion requirements are clearly defined, together with sanctions for beneficiaries who do not abide by the rules. A significant share of the Fund (15%, later increased to 20%) is devoted to strengthening the network of inclusion services. Both the cash transfer and the inclusion services belong to the set of essential assistance levels that the public administration must deliver to citizens over the whole national territory. A family can receive the transfer only after signing a socio-economic reinsertion pact. In this, the beneficiary commits to following personalized programs for training or social or job activation, devised by the municipality's social assistance services. In the first semester of 2018, REI is reserved to the same types of households potentially admitted to SIA, with the sole addition of households with an unemployed member aged at least 55 years. Starting from July 2018, REI becomes truly universal, i.e. subject only to the means test and to acceptance of the reinsertion pact.

The decree specifying the REI characteristics also contains some important innovations for governance of the instrument. A Committee for the fight against poverty will coordinate the different levels of government involved. The Central Administration manages the applications and economic support, while municipalities, generally in associated form, organize the personalized pacts of inclusion for the families concerned, while the regions allocate across municipalities the funds reserved to services, and guarantee that the essential levels of service provision are respected. A monitoring body will verify the correct management of the scheme. Finally, there will be a new institutional body, the Network for social inclusion, which will define the guidelines for new interventions and the Program for the fight against poverty, which will establish the use of the new resources eventually to be allocated to the Fund. REI is, indeed, financed by the Fund against poverty, which the last two budget laws have increased up to more than 2 billion euro per year.[16] It is a sum that, however insufficient to lift the poor out of absolute poverty,[17] represents a substantial turning point in this field for Italy. REI has been designed in a flexible manner, providing for the subsequent definition of specific Plans against poverty and social exclusion at both central and regional levels. The national plan will define the distribution of new resources becoming available in subsequent

[15] There are also two minor deductions: health expenditure for persons with disabilities and a periodic allowance for legally separated spouses and their children.

[16] The Fund against poverty and social exclusion amounts to 2.059 billion in 2018, 2.545 in 2019 and 2.745 from 2020 onwards.

[17] According to the estimates of the Alliance against poverty, at least 7 billion euro per year should be necessary to reach all households in absolute poverty (Gori et al., 2016).

Budgets. The Plan may also envisage modification of the means testing rules or for calculation of the benefit, as well as its duration. The regional plans will instead be devoted to the allocation of resources associated with the development of the inclusion services and their management.

Definition of the national plan for 2018 was impeded by the end of the legislature after the March election. The government has therefore decided to introduce some changes in REI in the budget for 2018, in particular its universal extension to all households that satisfy the means test, irrespective of their demographic composition. The law also provides for strengthening social services by easier hiring procedures for new employees. According to government estimates, the number of households eligible for the measure should increase, with the extension of REI to all households under the ISEE limit, from 500,000 to 700,000. Furthermore, the maximum amount of the monthly transfer has been increased to 540 euro for families with 6 or more members.

REI is available to all Italian and EU citizens, as well as to the non-European citizens who have the long-term resident's EU residence permit, and who have been living in Italy for at least two years. It is distributed via an electronic card for the purchase of basic needs and the withdrawal of cash up to half of the amount of the monthly benefit received. Its duration is of 18 months, but if the family is still in poverty, after 6 months a new application can be presented for obtaining 12 more months.

From this description, it is clear that REI has many points in common with the minimum income schemes existing in other European countries (Busilacchi 2013, Toso 2016). Like its European counterparts, it is conditional in a twofold sense: it is means-tested, controlling not only for disposable income but also for wealth, and is reserved to individuals who accept to follow a reactivation program, the characteristics of which should be tailored to the needs of each household. All minimum income European schemes have amounts much lower than the respective national poverty lines, and REI is no different. Its low level might be justified not only – like elsewhere – by the risk of creating poverty traps, particularly high in a country with a lot of underground economy, but also by the need to have the time to verify its initial effects and thus to introduce corrections where needed.

5. The effects of the new minimum income scheme in Italy: a simulation

As outlined in Section 4, starting from July 2018 REI becomes universal, i.e. subject only to a means test and without categorical restrictions. The previous version of REI (henceforth REI-17) was highly categorical and, according to our simulations, could reach only 1.7% of Italian households, with negligible effects on reducing poverty and inequality (Prometeia, 2017).

Herein we extend the analysis to the new REI, which, due to its wider coverage, is expected to have a more relevant effect on poverty and inequality. We simulate the implementation of the scheme at micro and macroeconomic level and provide an answer to questions such as: who benefits from REI and who are the new beneficiaries compared to REI-17? What are its main effects on poverty and inequality? What is its impact on GDP growth? We also estimate how many resources would be needed to extend the measure in order for all the recipients to reach, at least in theory, the poverty threshold. Finally, we simulate an alternative scenario in which we raise the multiplicative coefficient α that enters the formula to assign REI from 0.75 to unity in order to increase coverage and amounts distributed. With a static tax-benefit microsimulation model, we can only simulate the first-round effects of REI on income distribution, but not the effects of the activation projects, which represent a relevant characteristic of the measure.

The evaluation of REI's impact on the economy is performed at micro and macro level.[18] The microeconomic simulations partially draw on Baldini et al. (2015) and are carried out on the 2015 IT-SILC data, the Italian module of the European Union Statistics on Income and Living Conditions. The survey collects multidimensional microdata on income, poverty, social exclusion and living conditions. Information on social exclusion and housing conditions is collected mainly at household level, while labour, education and health information is obtained at individual level for persons aged 16 and over. The core variables, income and its components, are mostly collected at individual level. Socio-demographic characteristics refer to the year of the interview, while incomes to the previous one (i.e. the incomes of the 2015 survey refer to 2014).[19] The 2015 wave covers 17,985 households and 42,987 individuals, including children. The macroeconomic simulations are performed by means of the Prometeia Italian quarterly model (PIQM), a large structural model that links all sectors of the Italian economy.

Despite the newly designed REI will be fully effective only as of July 2018, we simulate its implementation over twelve months, assuming first a take-up rate of 100% to capture the intended effects of the measure. We also design a scenario with a non-full take-up rate to account for the fact that a fraction of eligible individuals might not apply for the programme (e.g. van Oorschot, 2002; Currie, 2004; Hernanz et al., 2004; Matsaganis et al., 2008; Immervoll et al., 2015). We assume a take-up rate of 60% – a reasonable figure for Italy (Eurofound, 2015) – and carry out two sample selection procedures: (i) a random draw in which only 60% of REI beneficiaries apply for and receive the benefit, and (ii) one in which, after ordering REI beneficiaries according to the size of the expected

[18] In the baseline scenario of both sets of simulations, household disposable income does not include the other income support measures that will be replaced by REI.

[19] Income is carried forward to 2017 using the consumption deflator.

benefit, the bottom 40% (those with lower incentive to apply for the measure) is assigned a null amount.[20]

With full take-up, we estimate that the total number of recipient households of REI is going to be 967 thousand, representing around 3.8% of Italian households. This corresponds to 2.2 million individuals, which amounts to 3.7% of the total population. The overall yearly cost is estimated at around €2.4 billion. The Government allocated around €1.7 billion to the Poverty and Social Exclusion Fund in 2018 (the transition year) and €2.2 billion, €2.16 billion and €2.13 billion in 2019, 2020 and 2021, respectively.[21] It estimates to reach 700 thousand households, for a total of 1.8 million individuals. Our simulations produce a wider diffusion of the benefit and therefore a higher cost. The likely reason of this difference is that we simulate the means-testing criterion for all households and not only for those who have filled out their ISEE return to apply for means-tested subsidies – the sample used for governments' estimates.

By design, the new REI has a wider coverage than REI-17, which was estimated to reach 430 thousand households (1.7% of Italian households) and 1.45 million people (2.4% of the total population), for an estimated overall cost of €1.3 billion (Prometeia, 2017). These figures are instead lower than the Government ones, which stand at 1.8 million beneficiaries (494 thousand households) and a cost of around €1.6 billion when fully implemented.[22]

[20] As already described, in Italy absolute poverty is officially measured by comparing the absolute poverty lines with household expenditure. IT-SILC, however, does not collect information on consumption. We therefore use income as a proxy and classify a person as absolutely poor if she lives in a household whose disposable income does not allow to purchase the amount of goods and services corresponding to the value of the absolute poverty line. According to this definition, we estimate that 8.5% of individuals are in absolute poverty, a share that is 0.6 points higher than the official estimate of 7.9% for 2016, the last available year.

[21] These amounts are net of those allocated to finance the reinforcement of territorial services (e.g. municipalities and local job centres). The overall endowment for REI is €2.06 billion in 2018, €2.55 billion in 2019, and €2.75 billion in 2020 and 2021.

[22] The differences mainly arise from the use of two different data sources: the government uses administrative records, while Prometeia (2017) constructs (and, where appropriate, estimates) the relevant variables from survey data. This implies an underestimation of the number of beneficiaries and average amounts received, particularly in the lower part of the income indicator used in the means-testing criterion and in the identification of some groups of beneficiaries, for instance pregnant women. The amount of €1.6 billion corresponds to the resources allocated to the Poverty and Social Exclusion Fund to finance REI-17, net of around €270 million to finance the reinforcement of territorial services.

5.1 *The impact of REI on poverty and inequality*

The impact of REI on absolute and relative poverty incidence is very mild (column 1 vs column 3 in Table 3) but, given its wider coverage, the improvement is more noticeable than that of REI-17, which was negligible (column 1 vs 2). However, it is still far from lifting a significant part of the poor out of poverty, since it does not cover all individuals or households living in poverty and the amounts distributed are not large enough to close the poverty gaps. If we assume a take-up of 60% in both its formulations, the figures are almost equivalent to those obtained with REI-17.

Table 3 Incidence of absolute and relative poverty before and after REI

	Baseline	Take-up 100%		Take-up 60%	
	pre-REI	REI-17	new REI	new REI (*)	new REI (**)
	(1)	(2)	(3)	(4)	(5)
Absolute poverty	8.51%	8.47%	8.44%	8.47%	8.47%
At-risk-of-poverty	20.06%	20.03%	20.01%	20.03%	20.01%

*Source: authors' simulations on IT-SILC 2015. * 60% random draw. ** Lowest 40% excluded.*

Table 4 shows the percentages of households and individuals in poverty that are also REI beneficiaries: we estimate that 41.8% and 18.9% of individuals in absolute poverty and in relative poverty, respectively, will receive the benefit. Similarly, the benefit is expected to reach 45.8% of households in absolute poverty and 22.5% of those in relative poverty. These figures are markedly higher than – and in some cases more than twice as much as – the ones obtained for REI-17 and reflect the path of REI towards universalism. Nevertheless, it is worth noting that, even in the case of full take-up, more than half of the households who live in absolute poverty will not receive the transfer. If we assume a lower take-up rate, e.g. 60%, only a quarter of households in absolute poverty obtain it. Since REI is universal in scope, the reason of this low coverage lies entirely in its limited generosity. Only a revision of its amount and of the means-testing criterion threshold might enable a larger number of poor households to be reached.

Table 4 Recipients of REI: overall, absolute poor and at risk of poverty

	households (*)		individuals (**)	
	REI-17	REI-18	REI-17	REI-18
Overall recipients	1.7%	3.8%	2.4%	3.7%
Recipients in absolute poverty	21.0%	45.8%	27.9%	41.8%
Recipients at risk of poverty	10.2%	22.5%	12.5%	18.9%

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

(*) Percentages on total households.

(**) Percentages on the total population.

REI is more successful in reducing the intensity of poverty, i.e. in moving the poor closer to the poverty line. Various indices complement the at-risk-of-poverty and absolute poverty rates in measuring the extent of poverty, such as the income gap ratio, the poverty gap ratio and the severity – or Foster-Greer-Thorbecke (FGT) – index.[23] All of them show that the introduction of REI helps the poor getting closer to the poverty line, despite not making them move above it.

Table 5 The impact of REI on the extent of poverty

	Baseline	Take-up 100%		Take-up 60%	
	pre-REI	REI-17 (#)	New REI	New REI (*)	New REI (**)
	(1)	(2)	(3)	(4)	(5)
Income gap ratio (absolute poverty)	38.0	32.6	29.7	33.0	31.0
Poverty gap ratio (absolute poverty)	3.2	2.8	2.5	2.8	2.6
FGT index (poverty line = 40% eq. med. income)	2.8	2.1	1.8	2.2	1.9

Source: authors' simulations on IT-SILC 2015 and under the assumption of full take-up.
(#) Prometeia (2017). (*) 60% random draw. (**) Lowest 40% excluded.

We estimate that the income gap ratio significantly falls, from 38% to 29.7%, after the distribution of the benefit (Table 5). Similarly, the poverty gap ratio falls from 3.2% to 2.5%. At the same time, the FGT index, which by construction puts more weight on the poorest part of the income distribution, falls from 2.8 to 1.8. The new REI outperforms REI-17, which, however, showed promising signals with respect to reducing the extent of poverty. Prometeia (2017) simulations resulted in a reduction of the income gap ratio from 38% to 32.6%, as well as of the poverty gap ratio from 3.2% to 2.8%. In addition, the FGT dropped from 2.8% to 2.1% (Table 5). The simulation results with a 60% take-up (random draw) are very similar to those of REI-17, while those in which the lowest 40% of REI beneficiaries are excluded lie between REI-17 and the new REI. This is reasonable since with the second sample selection criterion we are disregarding relatively richer households, i.e. those who receive a lower REI.

With respect to inequality, the Gini index declines from 0.325 to 0.321. Assuming a 60% take-up rate (with random selection), the Gini index falls to 0.322, as in the REI-17 case.

[23] The income gap ratio measures the extent to which the mean income of the poor falls below the absolute poverty line (the poverty gaps) as a proportion of the poverty line. The poverty gap ratio is the mean distance separating the population from the absolute poverty line, with the non-poor being given a distance of zero. The FGT index is calculated as the average of the squared relative poverty gap. In this case, the poverty line used to calculate the poverty gap is set at 40% of the equivalised median income.

Compared with REI-17, much has been done towards poverty alleviation by loosening the access requirements. These changes result in greater coverage and effectiveness against poverty. However, to give an order of magnitude of how many resources would be needed to reinforce the fight against poverty, we perform also two theoretical exercises. In the first one, we hypothesize giving a sufficient amount of REI to its recipients to close the absolute poverty gap (i.e. the distance from the threshold). The resulting cost would be around €7 billion, €3 billion more than that estimated for REI-17 (Prometeia, 2017) because of the higher number of beneficiaries. In the second one, we hypothesize giving a sufficient amount of income to all poor households (not only to the REI beneficiaries under the current rule) to close the absolute poverty gap. The cost (with full take-up) would rise to around €10 billion. These figures are useful for showing that poverty alleviation may be very costly. Indeed, the expenditure of €10 billion corresponds to the implausible case where the legislator can reach all the absolute poor with perfect foresight, and where no transfer is received by non-poor households. Since both of these assumptions are unrealistic, this estimate is simply a benchmark that can shed some light on the potential cost of a measure.

5.2 The impact of REI on household income

The transfer has a significant impact on the incomes of recipient households. On average, after the implementation of the scheme their incomes should increase by 70% (Table 6), thanks to an average yearly benefit of around €2480, corresponding to a monthly transfer of €210. The incidence of the benefit on the poorest households is more than four times their initial income. The transfer decreases along the income distribution, although its incidence continues to be relevant even for the highest income group. Recipient households are mostly concentrated in the lower income class, representing a share of 56% of total eligible households – it was 48% with REI-17.

Table 6 REI by income class

Household disposable income (€/year)	Average household income before REI (€/year)	Average REI (€/year)	Average household income change after REI (%)	Share of recipient households (%)
0-2999	636	2781	437.1	56.2
3000-5999	4349	2215	50.9	18.0
6000-8999	7399	2052	27.7	15.7
9000-11999	10036	1725	17.2	6.2
>=12000	15588	2179	14.0	3.9
Total	3536	2476	70.0	100.0

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

If REI-17 mostly targeted households with at least one child (of age below 18 years) by design, benefitting as much as 43% of this household type, this is not so with the new REI, since the new rules abolish all the household composition prerequisites. Households with children are now around 36% of total beneficiaries, as opposed to 80% with REI-17. The distinguishing feature of the new REI consists in reaching a large fraction of one-member households, which represent almost 43% of the total recipients (Table 7).

Table 7 REI by household composition

Number of household members	Average household income before REI (€/year)	Average REI (€/year)	Average household income change after REI	Share of recipient households
1	2206	1802	81.7%	42.9%
2	3820	2411	63.1%	17.8%
3	4446	3170	71.3%	17.1%
4	4690	3157	67.3%	13.9%
>=5	5954	3507	58.9%	8.4%
Total	3536	2476	70.0%	100.0%

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

Note that with REI-17, only 8% of singles – mostly unemployed individuals over 55 years of age – benefitted from the measure. These households receive an average benefit of around €1802 per year, which increases their average income by 81.7%. The singles benefitting from REI are mainly unemployed (31%), have an average age of 50.4 years (6 years younger than the average household head within the overall population, but slightly older than the average household head receiving REI), and 41% of them have a lower-secondary education level. As for lifting people out of poverty, REI is able to lift around 13.2 thousand singles out of absolute poverty and 13.5 thousand out of relative poverty.[24] These results show that REI shares many common features with similar schemes in other European countries also in terms of its likely results: in particular, since its amount is lower than the relative and absolute poverty thresholds, the impact on poverty incidence is negligible, while the reduction in poverty intensity and the relative change in income are more relevant.

The distribution of REI reflects Italy's territorial differences in terms of poverty levels (Table 8). The majority of recipient households is found in the South of the country: 6.3% of the local population could receive the benefit, corresponding to 53.2% of total recipient households at national level. Half of the resources for the programme, specifically 52.7%, are spent to reach eligible households located in the South, as opposed to the rest of the country.

[24] With REI-17, no singles succeeded in escaping poverty.

Table 8 REI recipients and costs by geographical area				
Share of:	North	Centre	South	Total
- recipient households by area (*)	2.3%	3.2%	6.3%	3.8%
- recipient households on total recipients	29.4%	17.4%	53.2%	100%
- poor recipient households on total poor recipients	30.2%	17.3%	52.6%	100%
Cost of REI by macro-area on total cost	28.7%	18.6%	52.7%	100%

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

(*) Percentages are on total households by area.

5.3 The impact of REI on children and child poverty

In Italy – similarly to the other Mediterranean countries – the share of children out of the total population is relatively small, but children face a high risk of monetary poverty. According to Eurostat data, the share of the total population represented by persons aged 0-19 years in 2015 is 18.1% in Italy, against 21% in the EU as a whole, and 24.4% in France. However, in the same year 26.7% of Italian children aged 0-17 years are below the at-risk-of-poverty threshold, against 19.1% in France, 15.4% in Germany, 21% in the EU. As shown above, absolute poverty has increased particularly for the young, so that in Italy more than one child out of ten is classified as absolute poor according to the Istat (2009) criterion. It is therefore no coincidence that the government has initially targeted the new guaranteed minimum income scheme towards families with at least one child. With respect to children, REI and REI-17 overlap, since REI-17 already targeted all households with children: with REI, 43% of children living in households in absolute poverty should receive the benefit, corresponding to about half a million children. Among them, roughly 9.2 thousand escape absolute poverty. The average annual transfer received by a family with at least one child is around €3300, representing an increase of 70% in disposable income (Table 9).

Table 9 REI by number of children in the household

Number of children	Average household income before REI (€/year)	Average REI (€/year)	Average household income change after REI	Share of recipient households
None	2920	2034	69.7%	64.3%
At least one	4646	3271	70.4%	35.7%
Total	3536	2476	70.0%	100.0%

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

5.4 An alternative scenario

In the first stage of REI implementation, the government set the maximum transfer to 75% of its statutory amount of €3000 (i.e., €2250) for a single person. In this alternative scenario, we simulate a change in the means-testing criterion by raising the multiplicative coefficient that enters the formula to assign REI from 0.75 to 1 (see Section 4). This has the effect of increasing both the number of beneficiaries and the amount received. The share of overall recipients rises from 3.8% to 4.7% of households and from 3.7% to 4.7% of individuals (Table 10). Individuals and households in absolute poverty and at risk of poverty also benefit from the hypothetical setting of REI: recipient households (individuals) in absolute poverty increase from 45.8% (41.8%) to 56.1% (53.7%), while households (individuals) at risk of poverty from 22.5% (18.9%) to 28% (24.5%).

Table 10 Alternative scenario: REI recipients

	Households		Individuals	
	coeff = 0.75	coeff = 1	coeff = 0.75	coeff = 1
Overall recipients	3.8%	4.7%	3.7%	4.7%
Recipients in absolute poverty	45.8%	56.1%	41.8%	53.7%
Recipients at risk of poverty	22.5%	28.0%	18.9%	24.5%

Source: authors' simulations on IT-SILC 2015 under the assumption of full take-up.

The average amount received is around €3082 per household, 24% higher than that estimated with the 0.75 threshold. This is equivalent to an increase in household income of 71%, close to the figure obtained in the previous simulations, since households reached by the extended version of REI are, on average, richer. As expected, the wider coverage implies a higher cost, which we estimate at around €3.7 billion.

5.5 A macroeconomic evaluation

By using Prometeia Italian quarterly model, we estimate the impact of REI on the economy on a three-year horizon (2018-2020). We use our previous estimate of a yearly cost of €2.4 billion as an input and we assume that all of the benefit will translate into consumption, given that REI recipients – which are low-income households – have a unitary (or even higher) propensity to consume, on average (Bank of Italy, 2015, Table B1).

Our results show that, over the period 2018-2020, REI would contribute to raising GDP by 0.14 percentage points annually, through an increase in private consumption. Consumption is expected to grow by a yearly average of €2.5 billion (+0.26 pp) and investment by €0.6 billion (+0.28 pp). GDP will rise by an average annual amount of €2.3 billion – slightly less than the overall amount of REI – because of an increase in imports driven by greater domestic demand.

Despite the increase in expenditure needed to finance REI, the rise in the public sector deficit to GDP ratio is expected to be relatively small due to higher revenues (mainly VAT on consumption goods), i.e. 0.1% in 2018, 0.06% in 2019 and 0.04% in 2020.

These results reinforce the principle that income support policies contribute to a country's economic growth (and well-being) and are not, as sometimes believed, a mere transfer of money to people in need without a tangible economic return. There could be, however, other expenditures with potentially higher effects on long-run growth that could be crowded out by this kind of expenditure. Worthy of note is that the ultimate objective of a poverty alleviation measure is to reduce poverty and increase the level of social inclusion, and it is on these elements that it should be assessed. However, our estimates show that REI also brings important benefits with respect to GDP growth and it implies – via higher tax revenues – a cost for the budget lower than the resources originally allocated to the programme.

6. Conclusions

Italy has finally closed the gap with the rest of Europe by enriching its welfare system with a minimum income scheme, which was still lacking in the country. REI was introduced in 2017 as a highly selective, means-tested and conditional programme and has been effective since January 2018. The budget law for 2018 revised its eligibility criteria and from July 2018 REI will become a universal income support measure, although still subject to means testing and conditionality. Overall, REI represents an important step towards the introduction of a nationwide measure in support of poor households' incomes.

In this paper, we focused on the revised version of REI. Using micro and macroeconomic simulation tools, we evaluated REI's effectiveness over a twelve-month period with respect to poverty alleviation, inequality reduction and GDP growth. We also quantified its impact on household income and investigated whether it reaches the weakest segments of the population, such as children. Our baseline scenario assumes a full take-up rate, but we also presented results considering a take-up rate of 60%. Furthermore, we provided comparisons with already published results related to the previous version of REI (REI-17). We also simulated an alternative scenario in which we slightly modified the means-testing criteria and assessed how much this change influences REI's cost and coverage.

The short-term effects of the scheme include supporting the incomes of the poorest segment of the population. Our results suggest that recipient households are mostly concentrated in the lower income class (disposable income less than 3000 euro per year), representing a share of 56% of total eligible households. However, REI is more successful in reducing the intensity of poverty, rather than in reducing the incidence of poverty. In order to have a more meaningful impact on poverty reduction, means-testing criteria should be looser, meaning that more resources should be allocated to the programme. We find that to close the absolute poverty gap among REI recipients would imply a cost of around €4 billion. If, instead, the goal were to close the absolute poverty gap, the cost would rise to €10 billion, always with full take-up. At macroeconomic level, we estimate that REI would contribute to raising GDP by 0.14 percentage points through an increase in private consumption.

The long-term effects include providing recipients with an incentive to engage in the labour market. Studying these effects is beyond the scope of this paper. However, the idea is that the targeted population will gradually move up the income ladder by being more economically active, thereby preventing their long-term dependency on the welfare system. Yet, a number of issues threaten the achievement of this goal. First, job centres and local social services often lack the efficiency and effectiveness that should belong to them. This is a critical issue as these institutions play a key role in following recipients in their path to social inclusion. Second, social participation programmes manage to activate their beneficiaries only in a minority of cases. REI is indeed targeted towards the weakest section of the non-elderly population that may cumulate various forms of difficulties (bad health, very low human capital, heavy care duties, etc.). Third, the economic crisis has severely damaged the occupational prospects for some areas of the countries, in particular for the Southern ones, where most of the poor are still located. The scarcity of available jobs contributes to increase the likelihood of depending on income support measures for long periods.

The general elections held in March 2018 marked the success of anti-establishment movements. Among the main proposals put forth by some of these parties, is the introduction of a *Reddito di cittadinanza* (Citizen's income, RC). However, the term is used inappropriately since the design of RC is more closely related to a minimum income transfer, not to a basic income scheme. According to official documents, RC is a benefit granted to all poor households and conditional on the participation in activation programmes. Differently from REI, poor households are defined as those having an income below the national relative poverty threshold computed according to the Eurostat criterion.

At the time of writing, it is still unclear which political forces will form the next government and whether the RC will actually be implemented. In any case, switching from REI to RC in a short period would be not only very expensive, but also very risky. Tax evasion and the underground economy are still widespread phenomena in Italy. Therefore, the risk of introducing distortions in incentives is very high, because some beneficiaries could try to combine the receipt of the subsidy with informal work. Further, a strong income effect might induce the household members with a low level of human capital to exit the labour market. A more cautious approach would see REI and RC not as substitutes, but as different stages of the same minimum income scheme, with very different thresholds. RC would be too generous, with the possible aforementioned risks, but the current version of REI is not able to reach all households in absolute poverty. As we have seen, the fact that the amount of minimum income granted to entitled individuals is much lower than the national relative poverty line is a common feature to all European countries, and Italy is no exception. To increase REI's effectiveness in alleviating poverty, a realistic option is a gradual increase of the amount of resources allocated to the programme. This would allow reaching more households over time and it would give policymakers and evaluators enough time to assess what works and what must be changed.

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