The introduction of minimum income in Italy: challenges and outcomes

PROMETEIA DISCUSSION NOTE

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Main points

- The number of people affected by poverty has grown by about 5 million in the Euro area (by half a million in Italy) since the start of the global financial crisis
- Therefore, the European Union is calling national governments to implement well-designed and adequate income support schemes
- Italy has recently launched its first minimum income scheme at national level to be rolled out in January 2018, namely the Income inclusion programme (REI, Reddito di Inclusione), similar to those already existing in the rest of Europe
- Although REI represents an important step towards poverty alleviation, its potential impact on reducing poverty is expected to be minor, given the budget constraints that limit its coverage to a subset of the poor
- To have a more substantial effect on poverty alleviation, eligibility requirements should be extended and more money invested in it
- From a macroeconomic perspective, REI is expected to contribute to GDP growth by 0.1 percentage points per year
- The estimated impact on GDP should bring about higher revenues which will substantially cover the cost of REI

I. Introduction

The impact of the latest crises on unemployment, poverty and social cohesion has been significant. Indicators of social vulnerability have increased in most advanced countries and the issue of how to tackle poverty and inequality has moved to the top of policymakers' agenda. This note opens with a brief description of the dynamics of poverty in Europe, paying particular attention to the case of Italy. It discusses minimum income schemes as a widely used tool for addressing poverty and describes Italy's new minimum income scheme at national level (REI), which finally brings it into line with the rest of the European countries. The note concludes with an assessment of REI's potential impact on GDP growth and, most importantly, its effectiveness in supporting low incomes.

II. Poverty levels in Europe are under the spotlight

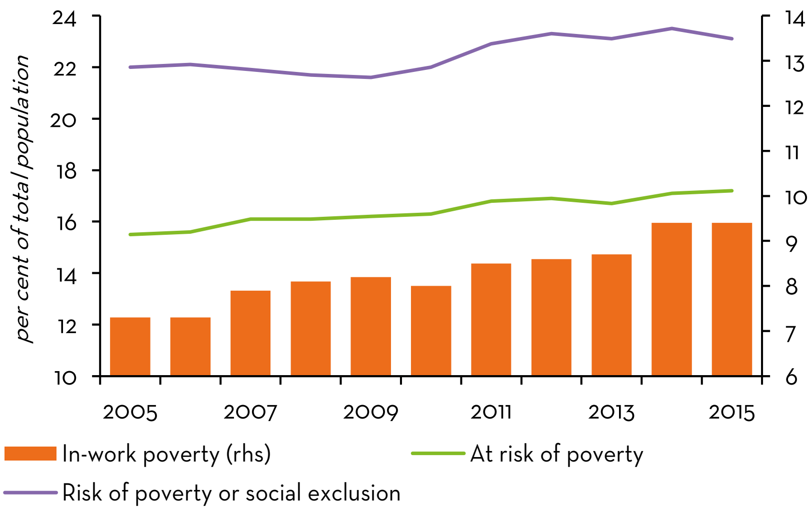
Euro area economic activity has improved since the outbreak of the sovereign debt crisis, but differences in socio-economic performance between member States persist. Some countries have not recovered the pre-crises GDP and employment levels yet. Poverty and inequality within most member States have increased since the 2008-09 crisis and a significant part of the population is at risk of poverty and social exclusion.

The economic and political debate has focused on ways of tackling these problems and the political agenda of European institutions and most European governments includes addressing poverty. The European Commission's Social Investment Package, published in 2013, is one of the examples of steps taken in this direction, as well as its 2014 recommendation to national governments to implement well-designed and adequate income support schemes as tools to fight poverty and increase labour market participation.[1]

At European level poverty is conventionally measured by means of three indicators: 1) the "at-risk-of-poverty" rate, i.e. the percentage of people out of the total population with an equivalised disposable income below the poverty threshold, which is conventionally set at 60 per cent of the national median equivalised disposable income;[2] 2) the "at risk of poverty or social exclusion" rate, which identifies the percentage out of the total population of those in at least one of the following conditions: at-risk-of-poverty, severely materially deprived, or living in households with very low work intensity; 3) the "in-work poverty" rate, i.e. the percentage of individuals out of the total population who, despite having a job, fall below the poverty threshold.[3]

Euro area countries are characterised by high levels of poverty (Figure 1).[4] On average, the at-risk-of-poverty rate grew from 16.1 per cent in 2007 to 17.1 per cent in 2014, corresponding to an increase of 4.7 million people, while the percentage of people at risk of poverty or social exclusion rose from 21.9 per cent in 2007 to 23.5 per cent in 2014. Additionally, there is evidence of an increasing trend of in-work poverty: the rate reached 9.4 per cent in 2014 up from 7.9 per cent in 2007. Some improvements in these measures appeared in 2015, namely a reduction of 0.4 percentage points of the proportion of people at risk of poverty and social exclusion and the stability of the in-work poverty rate.

These trends support the widespread concern that the economic slowdown has widened the gap between rich and poor, also confirmed by rising inequality – the Gini index at EU-level rose from



Source: Eurostat, EU-SILC

Figure 1

Poverty rates increased in the euro area up until 2014, but small improvements were visible in 2015

1 European Commission, "Social Investment Package: Towards Social Investment for Growth and Cohesion", http://ec.europa.eu/social/main.jsp?catId=1044&langId=en, February 2013. European Commission, "Addressing social divergences in European societies: improving minimum income support", http://ec.europa.eu/social/main.jsp?langId=en&catId=88&eventsId=982&furtherEvents=yes, 3 April 2014.

2 Equivalised income is a measure of household income adjusted to take account of household's size and composition.

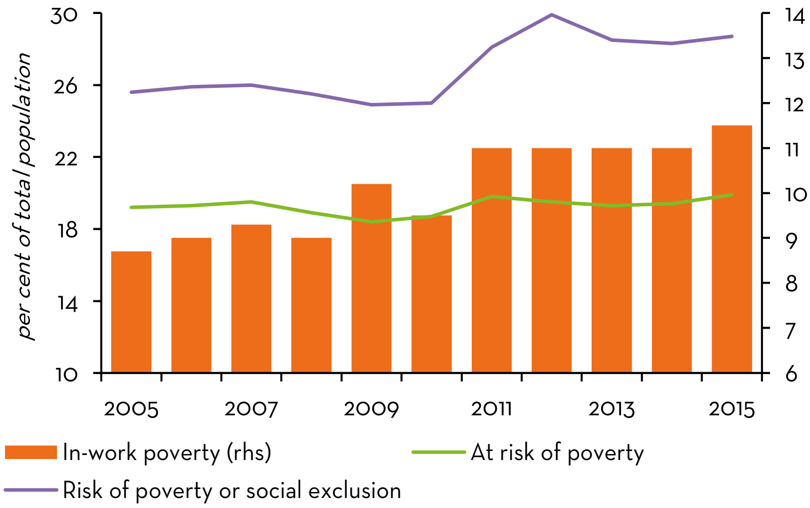
3 For definitions see: http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:At-risk-of-poverty_rate; and http://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion.

4 2015 is the latest available year.

30 per cent in 2007 to 31 per cent in 2014 (30.8 per cent in 2015).[5] Possible reasons have been investigated and explanations suggested. Amongst the most relevant ones, we find slow structural wage growth, which prevented recovery of labour incomes especially among poorer households. Moreover, redistribution policies did not get the space they deserved because of public finance constraints.

III. The poverty outlook for Italy has raised concerns pushing its policy makers to introduce a new anti-poverty measure

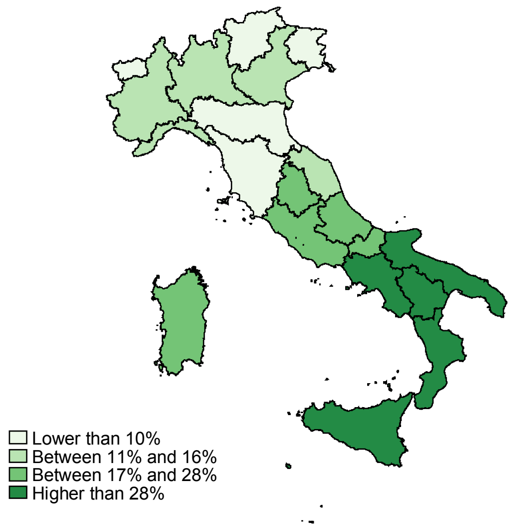
In Italy, the at-risk-of-poverty and the in-work poverty rates are higher than the corresponding European average values (Figure 2). At-risk-of-poverty stood at 19.5 per cent in 2007 and, after dropping to 18.9 per cent in 2008, it increased again to 19.4 per cent in 2015. The relatively small changes of this indicator are at odds with the strong negative impact that the crisis had on dispos-



Source: Eurostat, EU-SILC

Figure 2

In Italy there are no signs of improvement concerning poverty trends between 2014 and 2015



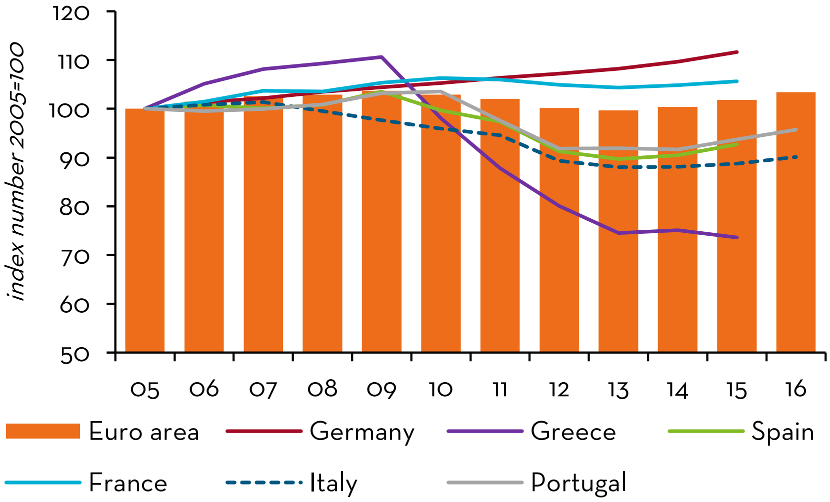
Source: Eurostat, EU-SILC (regional at-risk-of poverty rates)

Figure 3

***Poverty in Italy shows wide territorial differentials** (2015)*

per cent of total population

5 *The Gini index measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. An index of 0 expresses perfect equality where everyone has the same income, while an index of 100 expresses full inequality where only one person has all the income.*



Source: Eurostat (latest available data)

Figure 4

Per-capita disposable income in real terms in Europe shows signs of recovery, but Italy is still lagging behind

able incomes. As an alternative, keeping the poverty threshold constant in real terms at the 2008 level, the at-risk-of-poverty rate grew from 18.9 per cent in 2008 to 25.6 per cent in 2015.[6] In-work poverty rose by 2 percentage points, from 9.3 per cent to 11.5 per cent between 2007 and 2015. Unlike the average in Europe, in Italy there are no signs of improvement in poverty trends between 2014 and 2015.

One of the reasons why Italy shows higher poverty levels than the European average lies in its long-lasting and structural North–South divide, which characterizes Italy more than other countries (**Figure 3**). In 2007, the at-risk-of-poverty rate in the North was on average about 23 percentage points lower than in the South. In 2015, this difference was still as wide.

The financial crisis first, and then the sovereign debt crisis, left a heavy legacy to Italian households. Per-capita disposable income in real terms only started to recover from 2015, although levels have not yet returned to those pre-crisis and have fallen behind other European countries (**Figure 4**). The drop in income was unevenly distributed across the population. Employees and the self-employed are those who suffered the most compared to pensioners and the level of their incomes is far below the pre-crisis one (**Figure 5a**). In addition, there is evidence that the cost of the economic slowdown was borne to a greater extent by those of working age and the younger population (**Figure 5b**).

After the sovereign debt crisis, Italy's fiscal policy in 2014 became more supportive of household incomes and growth. As shown in Prometeia Position Note n. 2 (July 2017), the budget strategy of recent years' governments was able to support growth and redistribute resources to lower-income households.[7] As far as income support measures are concerned, households could benefit from the €80 monthly credit for low-income employees from May 2014 and the abolition of property taxation on first residences from 2016. However, these measures did not directly target poverty.

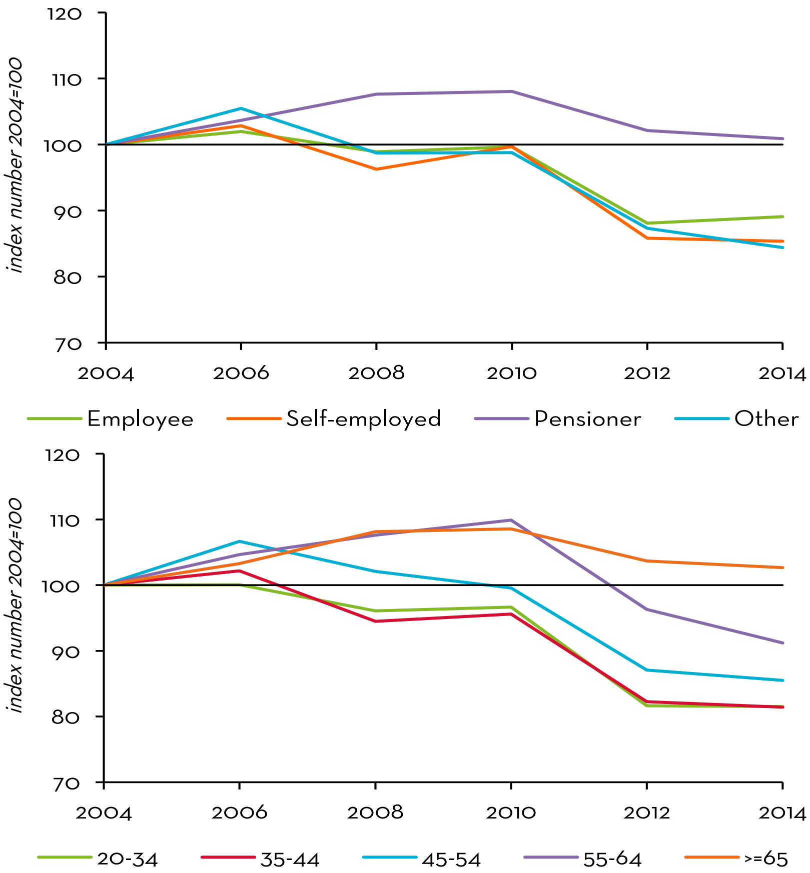
The 2016 Stability Law established, for the first time in Italy, a special fund for the fight against poverty and social exclusion (Poverty and Social Exclusion Fund), with the aim of introducing a

6 *For details see: http://ec.europa.eu/eurostat/web/products-datasets/-/tessi220.*

7 *"Which fiscal policy will Italy follow next?", Prometeia Position Note n. 2, July 2017,* http://www.prometeia.it/ricerca/position-note.

Figure 5

***In Italy, the cost of the economic slowdown was borne the most by employees and the self-employed, as well as by younger and middle-aged individuals** (*)*



a) by employment status

b) by age class

Sources: Prometeia calculations on Bank of Italy's Survey of Household Income and Wealth (2014 is the latest available year)
(*) Real income denotes equivalised income, a measure of household income that accounts for household composition

minimum income scheme at national level by 2018.[8] The steps towards the introduction of a national-based minimum income scheme started in September 2016, when the Active Inclusion Support (SIA, Sostegno per l'inclusione attiva), initially trialled in a limited number of municipalities, was extended nationwide. Since its launch, however, SIA was intended to be a transitory measure.

In March 2017 the Italian Senate approved an enabling bill to extend pre-existing measures of poverty alleviation.[9] The eligibility requirements of SIA were relaxed, but at the same time the bill established that the scheme should be gradually replaced by a new form of minimum income. This opened the way to the introduction at national level of the so-called Income inclusion programme (REI, Reddito di Inclusione).[10] In August 2017, the government gave the final green light to the legislative decree that implements the March enabling bill.[11] In the light of higher than Euro area average poverty levels in Italy, this decision could not be postponed.

REI differs from SIA in terms of eligibility criteria and amounts of the benefit (Table 1). Unlike SIA, REI does not rely on any scoring system and its means-testing criterion relies on two eligibility constraints instead of one only.[12] One is based on an indicator that jointly considers household

8 Law no. 208, 28 December 2015.

9 Enabling act (Legge delega), no. 33/2017.

10 The design of REI derives from the joint efforts of the Government and Alleanza contro la povertà (Alliance against poverty), a group of diverse entities with the common goal of fighting poverty in Italy.

11 Legislative decree (Decreto legislativo), no. 430/2017.

12 One of the SIA eligibility criteria is based on a scoring system: the benefit is granted to households that score 25 points or more depending on household composition and working status. The other requires having the joint indicator of income and wealth lower than €3000.

Table 1 REI and SIA eligibility criteria

General characteristics	Income Inclusion Programme (REI)	Active Inclusion Support (SIA)
	Means-tested; Conditional; Distributed via an electronic card for the purchase of basic needs and withdrawal of cash up to half of the amount of the monthly benefit received	Means-tested; Conditional; Distributed via an electronic card for the purchase of basic needs and payment of utility bills
Eligibility requirements		
Citizenship and residence	(1) Italian or European citizens	(1) Italian or European citizens
	(2) Non-European citizens w/ residency permit ...	(2) Non-European citizens w/ residency permit ...
	... who have resided in Italy for at least 2 years	... who have resided in Italy for at least 2 years
Household composition	- w/ one or more child	- w/ one or more child
	- w/ one or more disabled child	- w/ one or more disabled child
	- pregnant women	- pregnant women
	- unemployed members over the age of 55	
Income and wealth thresholds	- ISEE < €6000 (*)	ISEE < €3000 (*)
	- income component of ISEE < €3000 (*)	
	- nonfinancial assets < €20000	
	- financial assets < €10000	
Scored points (**)	n.a.	25 or more

(*) ISEE (Indicatore della situazione economica equivalente) is an indicator of the equivalent economic situation of the household, which combines both income and wealth components. It is used as the means-testing criterion
(**) For SIA only, eligibility is based on a scoring system

income and wealth and cannot exceed €6000. The other requires the income component of the indicator to be less than €3000.[13] The scheme, in a similar way to SIA, is highly categorical, as eligibility is limited to households with specific demographic characteristics. In contrast to SIA, the monthly benefit is not distributed as a fixed amount (€80 for each household member), but it varies between a minimum of €187.5 for a one-person household and a maximum of €485.41 for households with five or more components.

Italy has finally closed the gap with the rest of Europe by introducing a minimum income scheme at national level. REI will start in January 2018 and the plan for the long-run is to extend and update it in order to meet the emerging needs of the population, but also make it more easily accessible to those who are entitled to it (so as to reflect the principle of "selective universalism").

IV. Minimum income is the most widespread option for supporting the incomes of the poor

The introduction of new minimum income schemes or the revision of pre-existing ones is a critical part of the poverty reduction programme as presented in the European Commission's Social Investment Package. As of 2017, all Euro area countries have implemented some form of min-

13 These values are not directly comparable with the at-risk-of-poverty thresholds since the latter is based on equivalised disposable income. To give an order of magnitude of the gap between thresholds, the at-risk-of-poverty rate threshold in Italy was €9508 in 2015 (latest available year), a value much higher than those imposed by the two constraints.

imum income scheme. Even Italy and Greece, which lacked a form of minimum income scheme until recently, have finally come into line with the rest of Europe.[14]

Minimum income is essentially a last resort measure intended to ensure a decent minimum standard of living for individuals and their dependants when they have insufficient or no other means of financial support. It provides a safety net for those not eligible for social insurance payments or those whose entitlement to these payments has expired.[15]

Minimum income is a selective, or categorical, means-tested and conditional measure. It is selective because it is targeted at the poor; it is means-tested because entitlement depends upon the amount of income and wealth owned by the household; generally, it is conditional because recipients may have to prove their commitment to finding a job or participating in "workfare" programmes.[16] It pursues two main objectives: (i) to tackle the issue of poverty alleviation by reducing the intensity of poverty (moving groups of people beyond the poverty line), or at least by closing the poverty gap (moving groups of people closer up to the poverty line), and (ii) to give the poor an incentive to actively search for a job and therefore help them come out of poverty using their own means.

The term "minimum income" is often used inappropriately and sometimes confused with "basic income".[17] Unlike minimum income, a basic income (i) is a periodic cash payment delivered to all citizens, regardless of their socio-economic status, (ii) is unconditional as it is paid to individuals without the need to meet any particular requirement and (iii) is not means-tested. Basic income originates from the idea of providing all individuals with a basic standard of living as an individual right.[18] However, since it is granted to all and does not specifically target the needy, it would require an overall revision of countries' welfare systems. Another concern is that a basic income may discourage work or, in other words, it may have labour market supply-side effects that are hard to foresee and quantify.

Minimum income and basic income represent only two of the existing anti-poverty measures.[19] **Table 2** shows the family of programmes designed to tackle poverty. This list is not exhaustive, but provides a neat guide for classifying all other income support schemes. They go from the broader version, namely basic income, to the stricter one, in the form of minimum income, with a social dividend, participation income and negative income tax in the middle.[20]

14 Greece launched the Social Solidarity Income in 2016 aimed at providing a safety net to households living in extreme poverty. In its first phase, it was implemented in 30 municipalities. The second phase began in January 2017 and it includes all 325 municipalities throughout Greece.

15 European Commission (2016) "Minimum Income Schemes in Europe. A study of national policies", January 2016.

16 Workfare is a form of social assistance whereby otherwise unemployed individuals are granted a sum of money in exchange for their participation in some form of activity (e.g. employment, training courses, etc.).

17 Basic income is alternatively referred to as citizen's income or basic income guarantee. See, for more details, Basic Income Earth Network, www.bien.org.

18 Three examples of basic-income-type projects are those of Alaska, Finland and the Netherlands. Alaska's Permanent dividend represents, so far, the closest scheme the world has to a basic income. Since 1982 citizens, who have resided in Alaska for more than a year, receive a yearly payment based on the revenues from the State's oil activity. Whereas Finland and the Netherlands are currently undertaking basic income pilot projects. For a discussion on the topic, see: Van Parijs, P., Vanderborght, Y. (2017), Basic Income. A radical proposal for a free society and a sane economy. Harvard University Press.

19 For a critical review of these programmes, see: Granaglia, E., M. Bolzoni (2016), Il reddito di base, Fondamenti, Ediesse, and Toso, S. (2016), Reddito di cittadinanza. O reddito minimo?, Farsi un'idea, No. 252, il Mulino, Bologna.

20 The social dividend is a form of basic income, which grants individuals, unconditionally, a sum weighed according to their age and, here is its original feature, funded out of publicly owned public assets. Participation income grants all individuals a right to a secure income, but requires a form of participation by the recipient. It meets the aspirations to a universal basic income on one hand, and is in line with workfare-based programmes on the other. With the negative income tax, individuals earning an income equal to the poverty line would owe no taxes; those earning more than the threshold would pay a percentage of their income above that level, while those earning below the poverty line would receive a payment equal to the percentage of their shortfall.

Table 2 Broad categories of anti-poverty programmes

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

All European countries have a minimum income scheme or related types of non-contributory means-tested programmes to ensure a minimum standard of living. However, the measures vary according to their cost as well as in the number of recipients and poverty reducing effects.[21] These programmes are usually more successful in bringing poor people nearer to the poverty line, i.e. in closing the poverty gap, rather than allowing recipients to come out of poverty. This may happen because the income threshold that entitles individuals to receive a minimum income is often the result of a national level policy and may be lower than that used by official statistical offices - e.g. Eurostat - to construct poverty indicators.

V. Italy's new minimum income programme (REI) supports low incomes, but more needs to be done to dent poverty

REI is Italy's new minimum income programme for supporting low-income households. Gradually from January 2018 it will replace SIA and other pre-existing income support measures, such as the Social Card (Carta acquisti), the unemployment benefit (ASDI) and the so-called baby bonus distributed to households with children under the age of three.[22]

Who benefits from REI? What are the main effects of REI on poverty and inequality? What are its effects on GDP growth? In the following paragraphs we provide an answer to these questions by simulating the implementation of the scheme at micro and macroeconomic level. 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.[23] In other words, we quantify the overall effect of REI and not its additional impact on the state of the art, in which SIA, ASDI, etc. are in force. At micro level, we use the microsimulation model jointly developed by Prometeia and CAPP.[24] At macro level, we use the Prometeia quarterly macroeconomic model. We also estimate how many resources would be needed to extend REI in order for all the recipients to reach the poverty threshold.

21 For details see: Table 1 in Toso, S. (2016) op. cit., and figures 2 and 3 in Immervoll, H., Jenkins, S. P. and Königs, S. (2015) "Are Recipients of Social Assistance 'Benefit Dependent'? Concepts, Measurement and Results for Selected Countries", IZA Discussion Papers, No. 8786.

22 Eligible individuals may apply for SIA until the end of October 2017 and therefore be entitled to receive the benefit for a maximum of 10 months in 2018 since SIA is distributed for no more than 12 months. The Social card programme will end in 2018, ASDI in 2019 and the baby bonus in 2020.

23 The microeconomic simulations are based on the 2015 IT-SILC data, in which income data refer to 2014, when none of these measures was in place, except for the Social Card, which however could count on very limited resources (around €200 million, yearly) and a small coverage (less than 1 per cent of the total population).

24 CAPP, Centro di Analisi delle Politiche Pubbliche, University of Modena and Reggio Emilia. The dataset used for the microsimulations is IT-SILC (Italy's Survey on Income and Living Conditions) 2015. Monetary values are brought forward to 2017 using Prometeia July forecasts of the consumption deflator. All calculations are based on disposable income net of imputed rents. For more information on the microsimulation model see: Baldini M., Giarda E., Olivieri A. (2015) "A tax benefit microsimulation model for Italy. A partial evaluation of fiscal consolidation in the period 2011-2014", Prometeia, Nota di Lavoro n. 2015-01.

We estimate that the total number of recipient households of REI is going to be 430 thousand, representing around 1.7 per cent of Italian households.[25] This corresponds to 1.45 million individuals, 2.4 per cent of the total population, for an overall cost of around €1.3 billion. Our estimates are lower than official Government ones, which stand at 1.8 million beneficiaries (494 thousand households) and a cost of around €1.6 billion when fully implemented.[26] Since our goal is to evaluate the distributive effects of the measure rather than its overall cost, we consider these discrepancies acceptable.[27]

Poverty rates and inequality are only marginally affected by the introduction of REI. We estimate that the at-risk-of-poverty rate is almost unaffected. Another measure conventionally used to assess the extent of poverty is the absolute poverty rate, defined as the share of individuals whose consumption falls below the minimum level of consumption deemed necessary to satisfy basic needs (absolute poverty line).[28] This indicator identifies a smaller number of poor than the at-risk-of-poverty rate (official estimates for 2015 set at 7.6 the percentage of absolute poor and at 19.9 the percentage of people at risk of poverty). Our simulations show that even the absolute poverty rate remains almost unchanged. Only the Gini index decreases slightly from 32.5 per cent to 32.2 per cent.

Conversely, REI is going to be more successful 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 index.[29] All of them show that the introduction of REI helps the poor get closer to the poverty line, despite not making them move above it. We estimate that the income gap ratio significantly improves by falling from 38 per cent to 32.6 per cent after the distribution of the benefit. Similarly, the poverty gap ratio falls from 3.2 per cent to 2.8 per cent. At the same time, the poverty severity index, which by construction puts more weight on the poorest part of the income distribution, falls from 2.8 to 2.1.

Moreover, the incidence of REI on the incomes of the poorest households is high.[30] After the implementation of the scheme, the income of recipient households increases, on average, by 82 per cent (**Table 3**), thanks to an average yearly benefit of around €3100, corresponding to a monthly transfer of around €260. For the poorest households the incidence of the benefit on their income is high, almost five times their initial income. The transfer decreases along the income

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25 We assume a take-up rate of 100 per cent, i.e. all entitled individuals apply for the programme.

26 The value of €1.6 billion is the amount of resources necessary to finance REI in 2021, when SIA, ASDI and the so-called baby bonus come to an end. See: Senato della Repubblica, "Atto del governo sottoposto a parere parlamentare. Schema di decreto legislativo recante disposizioni per l'introduzione di una misura nazionale di contrasto alla povertà", no. 430, 12 July 2017, Table 6, p. 18. This amount corresponds to the resources allocated to the Poverty and Social Exclusion Fund (Fondo per la lotta alla povertà e all'esclusione sociale) to finance REI, net of around €270 million to finance the reinforcement of territorial services (e.g. local job centres) (Table 7, p. 19 of the above document). We use this value in the macroeconomic simulations as well, since the €270 million do not contribute to increasing REI beneficiaries' disposable income and therefore do not affect their consumption.

27 The differences mainly arise from the use of two different data sources: the government uses administrative records, while we construct (and, in some cases, estimate) the relevant variables from survey data. We are aware of the fact that 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. However, we believe that the results of our simulations regarding the distributive effects are reliable.

28 Unlike the at-risk-of-poverty threshold, there are many absolute poverty lines, which vary according to number of household members and their age, area of residence and degree of urbanization.

29 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 poverty severity index, or Foster-Greer-Thorbecke (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 per cent of the equivalised median income.

30 The term "incidence" identifies the percentage change in household desposable income due to policy changes, i.e. the introduction of REI.

Table 3 The incidence of REI is higher for the poorest recipient households

Household income group (€/year)	Average household income before REI (€/year)	Average REI (€/year)	Average household income change after REI (percentages)	Share of recipient households (percentages)
0-2999	705	3720	527.7	47.7
3000-5999	4337	2623	60.5	16.3
6000-8999	7318	2248	30.7	21.9
9000-11999	9954	1806	18.1	9.4
>=12000	14055	1782	12.7	4.7
Total	3754	3061	81.5	100.0

Source: Simulations on IT-SILC 2015

Table 4 REI increases with the number of household members

Number of household components	Average household income before REI (€/year)	Average REI (€/year)	Average REI (€/month)	Average household income change after REI (percentages)	Share of recipient households (percentages)
1	1502	1843	154	122.7	8.0
2	2374	2555	213	107.6	15.3
3	3618	3267	272	90.3	30.6
4	4506	3160	263	70.1	29.6
>=5	5641	3785	315	67.1	16.5
Total	3754	3061	255	81.5	100.0

Source: Simulations on IT-SILC 2015

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 48 per cent of total eligible households.

The benefit increases with the number of household members (Table 4), although its incidence on income is higher for one-member households, represented by single unemployed individuals over the age of 55. However, this family type represents only 8 per cent of recipient households, while households with three or four members, mostly couples with at least one child, represent the highest shares of recipient households (31 per cent and 30 per cent, respectively).

By design, REI mostly targets households with at least one child. Of the total number of recipient households, 80 per cent include at least one child (**Table 5**). These households receive an average benefit of around €3300 per year, which increases their average income by 79 per cent. Moreover, the programme reaches 42.9 per cent of children living in absolute poverty.

The distribution of REI reflects Italy's territorial differences in terms of poverty levels (Table 6). The majority of recipient households is found in the South of the country: 2.8 per cent of the

Table 5 The large majority of recipient households includes at least one child

Number of children	Average household income before REI (€/year)	Average REI (€/year)	Average household income change after REI (percentages)	Share of recipient households (percentages)
None	2414	2321	96.2	19.9
At least one	4153	3281	79.0	80.1
Total	3754	3061	81.5	100.0

Source: Simulations on IT-SILC 2015

Table 6 Households receiving REI are concentrated in the South of Italy (percentages)

Share of:	North	Centre	South	Total
- recipient households by macro-area (*)	1.0	1.6	2.8	1.7
- recipient households on total recipients (**)	27.2	19.6	53.3	100
Cost of REI by macro-area on total cost	28.7	21.6	49.7	100

Source: Simulations on IT-SILC 2015
(*) percentages are calculated on total households by macro-area
(**) percentages are calculated on total recipient households

Table 7 Recipients of REI: among the poor, who receives the benefit? (percentages)

	households (*)	individuals (**)
Recipients	1.7	2.4
Recipients in absolute poverty	21.0	27.9
Recipients at risk of poverty	10.2	12.5

Source: Simulations on IT-SILC 2015
(*) percentages are calculated on total households
(**) percentages are calculated on total population

local population receives the benefit, corresponding to 53.3 per cent of total recipient households at national level. Half of the resources for the programme, specifically 49.7 per cent, are spent to reach eligible households located in the South, as opposed to the rest (North and Centre) of the country.

REI does not cover all individuals or households living in poverty. Only 27.9 per cent and 12.5 per cent of individuals in absolute poverty and at risk of poverty, respectively, will receive REI (**Table 7**). Similarly, the benefit is distributed to only 21 per cent of households in absolute poverty and 10.2 per cent of those at risk of poverty. This happens mainly because the access threshold of REI is lower than both the absolute and the at-risk-of-poverty lines, as common to all minimum income schemes in Europe. Additionally, the eligibility criteria are not only based on the level of household income but also on family characteristics. Last but not least, one must remember that REI currently only targets a small fraction of the poor.

At macroeconomic level, we estimate that REI would contribute to raising GDP by 0.1 percentage points through an increase in private consumption. 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.[31] Within a three-year horizon, consumption is expected to increase by €1.9 billion and investment by €0.5 billion. While GDP will only increase by €1.7 billion, because of higher imports caused by higher domestic demand. Notwithstanding the increase in expenditure needed to finance REI, the public sector deficit on GDP rises by as little as 0.03 per cent due to higher revenues.

VI. Summing up

REI represents an important step towards the introduction of a nationwide measure in support of poor households' incomes in Italy. It closes the gap between Italy and the rest of Europe by enriching the country's welfare system with a minimum income scheme, which was still lacking in the

31 Bank of Italy (2015), Survey on Household Income and Wealth – 2014. Supplements to the Statistical Bulletin. Table B1, p. 52.

country. It represents a nationwide instrument that explicitly targets poverty reduction and that integrates other income support measures, such as the €80 credit, which reached not only households with low incomes but also the ones with mid-level incomes.

The short-term effects of the scheme include supporting the incomes of the poorest, while longer term effects include providing recipients with an incentive to engage in the labour market. 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. To reach this objective, great effort should be put into enhancing the efficiency and effectiveness of job centres and local social services.

However, to have a more substantial effect on poverty alleviation eligibility requirements should be extended and more resources allocated to it. To give an order of magnitude of how many resources would be needed to reinforce the fight against poverty we performed two theoretical exercises. In the first one we hypothesised giving a sufficient amount of REI to its recipients to close the absolute poverty gap. This would have a cost of around €4 billion. In the second one we hypothesised giving a sufficient amount of income to all poor households to close the absolute poverty gap. The cost would rise to around €10 billion. These figures are useful for showing that poverty alleviation is a serious matter and may be very costly.

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