

# Labor supply responses of Italian women to minimum income policies.

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Minimum guaranteed income policies are means-tested policies with two different goals. First of all they guarantee all citizens with a minimum level of income regardless of particular personal characteristics, like working history, as a consequence they fight social exclusion typically associated with poverty. They are typically made by two pieces. The first one sets up a benefits' scheme to supply individuals whose income is below a certain level with money transfers to reach that minimum level; the second one establishes a network of activities the individual has to do in order not to lose the monetary side. The network includes a wide range of possibilities such as job searching activities, training courses, to update or to acquire new skills, socializing and volunteering activities and so on and so forth. All these activities are targeted at fostering the individual reinsertion within the labour market and the society on a long run perspective.

The main shortcoming typically associated with this kind of policies is the possible disincentive effect on labour market participation at the bottom of income distribution due to the high effective marginal tax rate they impose near the threshold level. For low wage individuals could be more convenient on a short run perspective to remain out of or to exit from the labour market in order to receive the social transfer. Looking at the long run, minimum income policies could in principle have the undesirable effect of retaining some individuals from participating in the labour market and, therefore, of creating welfare dependent families.

Most European countries have already put in practice different forms of minimum income schemes. The more applied solution to face the disincentive problem consists in discharging part of labour earnings from the total income considered to establish program eligibility. For example in France only 50% of individual earnings enters in the considered income while in Portugal the percentage increases up to 70%.

Italy does not have a welfare policy based on the minimum income idea. In 1998, a first experimentation was made to test the financial and organizational feasibility of a national minimum income scheme. The experiment was carried out by 39 local cities for two years and the evaluation process, for the first time

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in social policies, was assigned to an independent institution. In 2001, without waiting evaluation results<sup>1</sup>, the financial law stretched the experimentation's period of two more years and enlarged the number of cities involved in it. In 2003-2004 the minimum income experiment was declared over and in principle the *reddito di ultima istanza* was created in its place, but, in practice, it never became real. The experimented minimum income scheme was mainly modelled on those already up and running in other European countries and, consequently, was made by an economic and a social part. Every city had to managed autonomously the social side while the economic side was mainly financed and established, through the setting up of eligibility rules and of income threshold, by the central government. The individual income threshold was set equal to 282 euros per month and equivalent individual income was computed using the ISE scale.

There is wide consensus among Italian economists and sociologists that Italy needs a minimum income welfare policy. The fragmentary and work-related structure of actual welfare system, the strong territorial differences and the concentration of poverty in some areas of the country call for it. This paper is aimed at investigating what would be the labour participation disincentive effect if a social transfer like the one experimented from 1998 to 2003 would be realized. We will focus our attention particularly on female labour supply considering its higher flexibility and responsiveness with respect to male labour supply. We will test how female participation decisions change after the introduction of a minimum income policy using a structural model of family labor supply among a set of discrete choices, to account for the fact that individuals face constraints on their possible working hours (Dickens and Lundberg, 1993, Van Soest, 1995). We will consider mainly three groups of women to investigate their different reactions: married, single living alone and single living with their parents. For all groups we will test how participation is affected by different policy schemes using five different income thresholds (linked to absolute poverty, relative poverty and existing Italian welfare policies) and increasing inclusion levels of labour earnings (from 75% to 100%) in the considered family income.

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<sup>1</sup>By the way, evaluation results never became public.