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Safety net and poverty dynamics in Italy in the early nineties

by

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Abstract

In this paper we analyse poverty dynamics and the ability of the Italian welfare system to reduce poverty using the 1991-1995 panel section of the Bank of Italy Survey on Income and Wealth. The poverty measures suggest a worsening of poverty during the 1993 recession, and that poverty remains at high levels afterwards. Households that are more exposed to the risk of poverty in all the periods analysed live in the South of Italy, have a large size and a young or woman head of households, with a low educational level or a discontinuous work-profile. We then analyse whether the current social safety net can significantly reduce poverty incidence and intensity by measuring its dynamic and static efficiency. Then we focus on households poor in terms of net income (not including transfers), and investigate the characteristics that increase the risk of exclusion from the safety net. Finally, we provide a closer look to the effects on poverty transitions of a form of minimum income guarantee currently in an experimental phase in Italy.

Keywords: Poverty dynamics, safety net, minimum income guarantee.

JEL Codes: I32, I38.

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Introduction

This study focuses on poverty in Italy in the first half of the nineties and on the ability of the Italian social security system to deal with poverty in a static and dynamic perspective. The first part of this paper deals with poverty dynamics in Italy, using a panel sample of households from the Bank of Italy Survey on Household Income and Wealth (SHIW). The period considered covers the 1993 recession and enables us to identify the events most likely to be associated with entry into poverty levels in 1993 and with transitions out of the poverty line after the recession. In the second part of this paper we study the structure of the Italian social security system and its ability to deal with poverty in a static and in a dynamic perspective. The analysis includes the characteristics of the households that are more likely to be associated with a low level of public transfers once a household is poor in terms of pre-transfer income.

1. Poverty dynamics

This study deals with poverty dynamics in Italy from 1991 to 1995. This period allows for an analysis of the events that are most likely to be associated with entry into poverty during a recession year and with the transitions out of poverty following a recession.

An empirical analysis of such a complex and multidimensional phenomenon as poverty often involves many subjective methodological choices.[1] In the first part of this study, we define poverty in terms of total household disposable equivalent income. The choice of an appropriate equivalence scale is a controversial problem, and the literature on this subject reveals conflicting options as to the method to compute it and the characteristics that must be taken into account (family size, age of each member, etc.) for its determination. In this study, we have adopted a new scale recently introduced by Italian legislation. It is obtained simply by raising the number of components to the power 0.65, plus some corrections[2]. The elasticity of this scale is slightly lower than that of the OECD scale (0.72), and very close to that of the equivalence scale traditionally used in studies on poverty and inequality in Italy, as derived by Carbonaro (1985). We have chosen this scale not only because it is similar to other traditional scales, but especially because it will probably become the "official" scale for Italy, having already been adopted in the recent legislative acts concerning a new means-testing scheme for income and the introduction of a minimum income guarantee. Previous studies (for example de Vos and Zaidi 1995) have shown that the composition of the poor population changes with the scale, and that an elasticity of 0.65 tends slightly to increase the proportion of the poor represented by households with children, when compared to scales with lower elasticity. This should be kept in mind in the analysis of the results.

The sample is the panel of 2,579 households which took part to SHIW in 1991, 1993 and 1995.[3] We use a relative poverty line defined in terms of per capita average income for each year: a two-component household is poor if its disposable income is lower than average per capita income. Table 1 shows the changes in poverty during the period. At national level, we can see how poverty (both in incidence and intensity) deteriorated from 1991 to 1993 and that, after the recession, poverty did not decrease. This is consistent with what was found using the 1993-1995 panel

[1] For a recent discussion on the methodological problems encountered in poverty analyses, see Atkinson (1998).

[2] Plus 0.2 if both partners work and there is at least one child, 0.2 if the parent is single, 0.5 for each seriously disabled member.

[3] The Bank of Italy survey on income and wealth (SHIW) gathers information on the demographic structure of the family, on income and wealth, on employment status and educational level of its members. Moreover, since 1989 this survey has collected longitudinal information on part of the sample. However, the more limited size of the 1989-1995 sample led us to a restriction of the analysis to the 1991-1995 panel. For a dynamic analysis of poverty using 1989-1993 panel, see Pattarin (1995) and Trivellato (1998), Addabbo (1999) focuses on the 1993-1995 poverty dynamics. Brandolini and Cannari (1995) provide more information on the survey.

(Addabbo,1999). Moreover, we can see how poverty intensity has increased during the three years analysed in the south-west, in the north-west and in Central Italy.[4] The situation is particularly serious in the south-west, where the incidence of poverty was 23% and the Foster, Greer and Thorbecke (1984) index was 47% in 1995.

Tab.1 Poverty incidence and intensity[5]

	Italy			**Centre**		
Poverty indices	***1991***	***1993***	***1995***	***1991***	***1993***	***1995***
Head Count	6%	11%	11%	9%	7%	6%
Intensity	18%	27%	30%	15%	23%	26%
FGT	6%	16%	19%	4%	12%	22%
Poverty line	7,949,105	8,681,773	9,633,977			
Obs.	2,579			433		
Poverty indices	**South-west**			**South-east**		
by regions	***1991***	***1993***	***1995***	***1991***	***1993***	***1995***
Head Count	13%	23%	23%	9%	18%	15%
Intensity	20%	27%	32%	16%	27%	27%
FGT	13%	34%	47%	10%	21%	17%
Obs.	636			343		
Poverty indices	**North-west**			**North-east**		
by regions	***1991***	***1993***	***1995***	***1991***	***1993***	***1995***
Head Count	2%	5%	4%	2%	5%	3%
Intensity	13%	18%	26%	24%	39%	35%
FGT	1%	9%	5%	2%	6%	3%
Obs.	537			630		

North-west: Piemonte, Valle d'Aosta, Lombardia, Liguria
North-east: Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna
Centre: Toscana, Umbria, Marche, Lazio
South-west: Calabria, Basilicata, Sicilia, Sardegna and Campania
South-east: Puglia, Abruzzo and Molise

[4] In the regional disaggregation adopted, Southern Italy is divided into two macroareas, which Attanasio and Padoa Schioppa (1993) have shown to be significantly different on the basis of a series of socioeconomic indicators: South-west (Calabria, Basilicata, Sicilia, Sardegna and Campania) and South-east (Puglia, Abruzzo and Molise).

[5] The ***head count*** (HC) ratio measures the incidence of poverty on the population or on different groups of the population, and it is the ratio of poor households on the population. HC does not provide a measure of poverty intensity and for this purpose, we have used the ***income gap*** (I) ratio:

$$I = \sum_{i=1}^{q} \left[\frac{z - y_i}{zq}\right]$$

Foster, Greer and Thorbecke (1984) have proposed an index (***FGT***) that makes the intensity of poverty dependent upon the income distribution amongst the poor.

$$FGT = \frac{1}{n}\sum_{i=1}^{q} \left[\frac{z - y_i}{z}\right]^{a}$$

q = number of poor households
n = total number of households
z = poverty line
y_i = family income
α = parameter, the higher the parameter the higher the weight given to the poorest households. We have assigned a value of 2 to this parameter.

The share of households that experienced poverty over all the 5 years is higher than the share resulting for other European countries and lower than that found for the USA and Canada by Duncan et al. (1993) during the eighties. However, given the different period and the different definition of poverty used by Duncan et al., we must compare our results with caution.[6]

It can also be observed that poverty persistence, defined as being poor for all survey years, is more frequent in Italy (Tab.2). Again there are relevant regional disparities, with the South-west of Italy showing the highest degree of poverty persistence: in fact 8% of the households living in the South-west of Italy are below the poverty line in all of the three years analysed. In Italy 15% of households have been touched by the experience of poverty for one or two years, and also in this case we observe a higher percentage of *transitory* poor in the South West (where 28% of households were poor for one or two years) than in other areas of Italy (in the North East 6% of households are poor for one or two years). It should be noted that the poverty spells observed in 1991 and in 1995 could be the last or the first period of a longer poverty spell. The definitions of persistence and transitory poverty are relative to the short period available for this analysis. Households stricken more harshly by poverty persistence are characterised by reference persons with a low level of education. Households with heads of families younger than 40 in 1991 were more exposed to the risk of being poor for one or two years. The percentage of poor households was greater in all three years if the head was unemployed in 1991 (36%), whereas if the head was employed in 1991, the risk of the family being poor for one or two years, was greater if the head was employed as a blue-collar worker, self-employed or a professional in 1991, or employed in the agricultural sector (31% of the latter were poor for one or two periods and 7% in all three periods). A dual-income household is less likely to experience a poverty spell than single-income families (25% of single-income households were poor for one or two years and 6% for the whole period).

[6] Even if Duncan et al. (1993) use household income, they have restricted their analysis to households with young children and use median income to define the poverty line. Though one must be cautious with comparisons for the reasons specified above, we can see that the intensity of poverty in South-west Italy is closer to the poverty intensity found in the USA. On the other hand, the incidence of poverty in the north-central part of the country are nearer to the intensity of poverty found in other European countries.

Tab.2 Poverty persistence in Italy: number of years in poverty

	Never	*One or two years*	*Always*
Geographic area			
North-west	91%	9%	0.20%
North-east	93%	6%	0.50%
Centre	86%	13%	1%
South-west	64%	28%	8%
South-east	77%	19%	4%
Total	82%	15%	3%
Head's level of education			
Primary or no schooling	76%	16%	6%
Secondary school	78%	20%	2%
High school	91%	9%	1%
College degree or higher	97%	3%	0%
Head's age in 1991			
19-29	74%	21%	5%
30-39	74%	21%	5%
40-49	84%	13%	3%
50-59	82%	16%	2%
60-65	87%	8%	4%
Over 65	84%	15%	1%
Professional status of the head in 1991			
Unemployed	28%	36%	36%
Self-employed	73%	25%	2%
Professional	78%	22%	0%
Blue collar	71%	23%	6%
White collar	95%	4%	1%
Managerial	100%	0%	0%
Agriculture	62%	31%	7%
Manufacturing	82%	15%	3%
Services	85%	12%	3%
Self-employed in Agr.	71%	29%	0%
Self-employed manufacturing	70%	23%	7%
Self-employed Services	75%	23%	2%
Number of earners			
Single-income	69%	25%	6%
Dual-income	92%	8%	0%

The effects of the different variables that may be related to poverty persistence are studied by means of a multinomial logit model, the left-hand side variable of which has the following values:

0 if the household was never poor in the three years (this condition was common to 82% of the panel households)

1 if the household was poor for one or two periods (15%),

2 if always below the poverty line (3% of households).

The right-hand side variables refer to

- household characteristics (number and ages of children, region, number of inhabitants of the town where the household lives);
- head's characteristics (age, gender, education and employment condition) in 1991,
- and some dynamic events in terms of new births, changes in the head of the households, or changes in employment conditions.

The *probability of a household being poor for one or two periods*[7] (first two columns in table 3) increases as the head of the household's education level lowers, if the head is a woman, if the head

[7] This is what we call *transitory* poverty for the period analysed.

was self-employed, professional or blue-collar in 1991 or employed in manufacturing or in agriculture, and if the head had a pension (unrelated to work) and if either partner was not employed in 1991.

Poverty probability increases with the number of children under 18 years, and if the household does not live in North-east Italy. It is particularly high for households living in South-west Italy. Single-income households face a higher risk of poverty, as is the case if there are changes in the head of the family, whereas households with heads of the family or partners who have been continuously employed in the period analysed, show a reduction in poverty probability. If we examine the effect of the head's age, we can see that the ages at the extreme ends of the range are more likely to fall below the poverty line for one or two periods; that is, households with heads of the family over 75 or less than 29 years.

The last two columns in Table 3 show *the probability of being persistently poor* (i.e., poor over the whole period). Persistence in poverty is higher if the household head is a woman, has a lower level of education, or if the partner was out of the labour market or unemployed in 1991. One should stress that while being self-employed or a professional in 1991 increased the probability of poverty for one or two periods, these employment conditions of heads of families do not affect persistence in poverty (for the whole period). This may denote a higher risk of facing transitory, rather than persistent, spells of poverty for these households.

Persistence increases if the head is employed in agriculture and with children in all age groups. Households that do not live in North-east Italy are more exposed to the risk of persistence in poverty, especially in the South-west Italy. If the head of the family has a continuous work profile over the period analysed, the probability of being persistently poor sharply declines.[8] Changes in the head of the family did increase transitory poverty, but do not significantly affect poverty persistence. We have seen that ages of heads of families at the extreme of the range increased the risk of transitory poverty, but we also noted that persistence in poverty increased only if the head's age was under 40.

This multinomial analysis showed that persistence in poverty is more widespread amongst younger and larger households living in central–southern areas of the country, especially in the South-west, whose head has a very low level of education,[9] is a woman or has a discontinuous work-profile. One or two years of poverty is a risk shared by households with heads of the family who are over 75 or under 29,[10] and with head of the family self-employed or a blue collar worker (the reference here is white collar or manager in the service sector), or employed in agriculture. Moreover, a change in the head of the family does increase the risk of transitory poverty and does not affect persistence. If the head of the family or the partner has a discontinuous work-profile, their household is more likely to experience poverty.

[8] The sample did not include any household that was poor in all three survey years with partners who were always employed. We have also estimated models with a complete set of variables on the employment status of partners. They proved to be significant for the probability of experiencing one or two years of poverty.

[9] The reference is a head of the family with a high school education.

[10] The reference being a head of the household between 50 and 64 years of age.

Tab.3 Multinomial logit model of poverty persistence[11] (Reference: never poor)

	1: Poor in one or two periods		*2: Poor in all three interviews*	
	Coeff.	z	Coeff.	z
Woman head	0.468	1.89	3.037	4.15
Head primary or less educ.	0.968	4.17	1.798	3.25
Head secondary school	0.675	3.12	0.802	1.49
Head college degree or higher	-0.775	-1.42	-30.407	0.00
Head self-employed	1.322	5.45	0.082	0.14
Head professional	0.846	2.02	-0.085	-0.07
Head blue collar worker	0.763	3.31	0.734	1.63
Head retired	0.383	1.23	0.799	1.26
Head non labour pension[12]	1.459	3.82	0.760	0.94
Head out of the lab. force	1.433	2.16	1.573	1.33
Partner out of labour force	0.562	2.92	2.628	3.74
Partner in search of a job	0.422	0.85	2.675	3.12
Head employed in agric.	0.593	2.58	0.810	1.72
Head employed in Manuf.	0.262	1.64	0.478	1.44
Com91[13]	0.017	0.13	0.407	1.39
No. children aged 0-2 in 1991	0.408	1.69	1.058	2.64
No. children aged 3-5 in 1991	0.324	1.46	1.005	2.46
No. children aged 6-10 in 1991	0.408	2.69	1.102	4.25
No. children aged 11-17 in 1991	0.473	4.19	0.781	3.87
No. children older than 18	0.074	0.83	0.544	3.06
Single	0.049	0.11	0.069	0.09
North-west	0.621	2.51	0.577	0.46
Centre	0.845	3.48	1.985	1.81
South-west	1.759	8.09	3.745	3.64
South-east	1.340	5.51	2.838	2.67
New births of children	0.382	1.36	0.568	1.09
Head always employed	-0.522	-2.54	-1.339	-3.47
New head	0.385	2.01	-0.517	-1.05
Head 19-29 years old	0.779	1.96	2.252	2.71
Head 30-39	0.397	1.38	1.753	2.79
Head 40-49	-0.091	-0.38	0.751	1.45
Head 65-74	0.119	0.48	-1.662	-1.54
Head over 75	0.524	1.91	0.669	1.04
Single-income	0.690	3.32	0.414	0.92
Constant	-5.203	-13.99	-11.933	-8.47

Number of observations = 2,579
Pseudo R^2 = 0.2569
Log Likelihood = -1019.8322

[11] The demographic structure of the family and head and his partner's characteristics refer to 1991, whereas the events included took place either in 1993 or in 1995.
[12] Such as social, disability, survivors' pensions.
[13] com91=1 if the household lives in a municipality with more than 40,000 inhabitants.

1.2 The effects of the 1993 recession on poverty

In this section, we examine the effect of the 1993 recession on the poverty status of Italian families. The indices in Table 1 shows that poverty did worsen in 1993 and that the situation in terms of poverty did not improve after the recession. Indeed, the incidence and intensity of poverty remained at the 1993 level and in some cases even worsened.[14]

Amongst households that were not poor in 1991, 7% fell below the poverty line in 1993. We analyse the distribution of these households by the events that are more likely to be related with transitions into poverty (Tab.4): new head of the family (13% on the households which became poor in 1993 had a new head of the family in 1993), head became unemployed in 1993 (this event is common to 10% of the households that became poor in South-west Italy and only 3% of the households that become poor in 1993, but that live in Central–northern Italy), the head's partner became unemployed (this event regards 5% of households who were newly poor in 1993), new births (7%) and a reduction in social transfers (this reduction is experienced by 20% of the newly poor in 1993 and was more frequent for households living in the South-east).

Tab.4 Households that were not poor in 1991 and that became poor in 1993

Entry into poverty in 1993 By event and region	*% on Households not poor in 1991*				
Northern-central Italy	4%				
South-western Italy	15%				
South-eastern Italy	13%				
Total	7%				
Entry into poverty in 1993	*New Births*	*New head*	*Head becomes unemployed*	*Partner becomes unemployed*	*Social transfers reduction*
By event and area					
Northern-central Italy	8%	18%	3%	4%	22%
South-western Italy	7%	11%	10%	7%	13%
South-eastern Italy	6%	7%	6%	2%	32%
Total	7%	13%	7%	5%	20%

We had then analysed how many households that were poor in 1993 managed to escape from poverty in 1995. As Table 5 shows, 45% of poor households in 1993, left poverty in 1995. In this case, the event most commonly associated with leaving poverty is the increase in social transfers from the public.[15] This event regards 44% of households that were poor in 1993 and not poor in 1995, and more households living in Northern-central Italy or in the South-west, followed at a distance by the presence of a new partner, or by the head's and partner's employment conditions (Tab.5). It should be emphasised that those households that escaped poverty in 1995 after having been poverty-stricken in 1993, were more frequently characterised by a continuos work-profile of the head.[16]

Given the role of public social transfers for households that left a state of poverty in 1995, we analysed their distribution by the amount of the increase in public transfers from 1993 to 1995

[14] For a dynamic analysis of poverty in Italy which focuses on the 1993-1995 transitions, consult Addabbo (1999).

[15] Family allowances, social or invalidity pensions, minimum integrations, wage supplementation fund. See Section 2 for a more detailed description of these transfers.

[16] Addabbo (1999) shows the significance of the poverty gap in 1993 and of the number of employed family members in the probability of leaving poverty after having fallen into poverty during the 1993 recession. The analysis by individual provided in Addabbo (1999) shows that younger individuals are more exposed to the risk of remaining in poverty after the 1993 recession, and also that living in South-west Italy and a lower level of education of the head of the household, increased the risk of persistence in poverty in 1995.

(Tab.6): 52% of these households did indeed receive a very small increase in their social benefits (less than or equal to 20%). Still these families remained very close to the poverty line, and only 23% of them obtained an increase in transfers greater than 50% with respect to the 1993 level, and this signals the precarious situation of these families.

Tab.5 Households poor in 1993 that exit in 1995

Exit from poverty in '95	*% on*			
By event and region	*Households that were poor in 1993*			
Centre North	68%			
South West	36%			
South East	31%			
Total	45%			
Out of poverty in '95	*Transfer increase*	*New head*	*Head becomes employed*	*Partner becomes employed*
By event and region				
Centre North	48%	11%	5%	0%
South West	44%	8%	2%	2%
South East	24%	2%	0%	0%
Total	44%	9%	3%	1%

Tab.6 Households poor in 1993 which exit in 1995, frequency distribution by transfers percentage increase with respect to 1993

Increase in social security	
0-10%	35%
10-20%	17%
20-30%	11%
30-40%	14%
40-50%	0%
50-60%	0%
60-70%	5%
70-80%	7%
80-90%	1%
90-100%	10%
	100%

(% of increase with respect to safety net in 1993, values reported to 1995)

The income distribution by deciles of households that were poor in 1993 shows that on the whole, even when they leave poverty their income does not move far away from the poverty line, and this may imply a high probability of re-entry in poverty afterwards when transfers decrease or when the head of the household or his partner become unemployed (Tab.7).

Tab.7 1995 Decile income distribution of households below the poverty line in 1993

Income deciles in 1995	I Decile 1993	II Dec.1993	III Dec.1993
1	55%	35%	1%
2	15%	31%	19%
3	9%	13%	29%
4	8%	3%	33%
5	5%	3%	13%
6	3%	9%	0%
7	1%	5%	2%
8	1%	1%	0%
9	1%	0%	3%
10	2%	0%	0%
	100%	100%	100%

2. Safety net and economic exclusion

2.1 The dynamic efficiency of the income safety net

After the examination of the flows from and towards poverty in the 1991-95 period, this section poses the question of whether and to what extent the set of social assistance transfers currently in place in Italy contribute to reducing the intensity and frequency of transitions into poverty.
However, two preliminary steps are required for clarification purposes prior to this analysis: a) a precise definition of the safety net; b) an outline on how it has been reproduced in the Bank of Italy surveys of 1991, 1993 and 1995.
The safety net is defined here as the set of cash transfers aimed at defending people from economic poverty, and conditional to the satisfaction of a means test; it is therefore the sum of social assistance expenditures, and includes the following schemes:

- social pensions
- family allowances
- wage supplementation funds
- disability pensions
- old age supplementary pensions
- other forms of social assistance (mainly lump-sum indemnities for those living with disabled persons).

Social pensions are the only form of minimum income guarantees currently existing in Italy and they are reserved to persons over 65 with insufficient incomes. Italy still lacks a universal anti-poverty scheme in the form of a minimum guaranteed income, now present in almost all other EU countries. Family allowances are cash transfers to households of employees or retired persons with family burdens and medium or low incomes. Wage supplementation funds are subsidies reserved to those who have lost their previous jobs, and old age supplementary pensions fill the gap between the accrued pension and a minimum standard, set slightly above the level of the social pension.
Family allowances and old age supplementary pensions are not originally present in the Bank of Italy surveys, so we imputed them according to the income and demographic characteristics of each household. Old age supplementary pensions were reconstructed by first selecting those persons who declare that they receive a pension sufficiently closeto the minimum pension for each year, and then imputing to each of them the average amount of integration, variable for each type of previous activity (public or private employee, self-employed) and sector. Finally, wage supplementation funds gather in a single amount, in the Bank of Italy surveys, a vast series of work-related benefits, aimed at sustaining the incomes of workers who have lost their previous jobs.
Of these schemes, three (family allowances, wage supplementation funds, part of the disability pensions are actually based on a contributory record, and thus should be more correctly classified under the heading of social insurance. However, we have included them here as they are explicitly directed towards the poorest part of the population and therefore represent an essential part of the current safety net.

The following is the basic issue examined in this section: how many persons become poverty-stricken in a given time span, and what is the role of the welfare state in reducing the frequency or the consequences of such transitions? Table 8 contains the possible flows into and out of the state of poverty in two years, defined according to two alternative income definitions: y0 represents disposable income less assistance transfers, whereas y1 is income including these transfers (but after deducting taxes and contributions), and it corresponds to the total disposable household income reported in the survey. We have concentrated on the 1991-93 period because the 1992-93 recession produced a greater number of transitions into poverty than that found in the 1993-95 interval.

Tab.8 Transitions from and towards poverty in terms of income (including or deducting assistance transfers) over the 1991-93 period. (in parentheses, average age of the head of household in 1993).

		1993				
1991		1 Poor in y0 and y1	2 Poor in y0, not Poor in y1	3 Not Poor in y0, Poor in y1	4 Not Poor in y0, not Poor in y1	Total
		1	2	3	4	
1 Poor in y0 and y1	1	110 (47)	34 (53)	9 (62)	47 (51)	200 (50)
2 Poor in y0, not poor in y1	2	19 (62)	39 (66)	2 (70)	59 (65)	119 (65)
3 Not Poor in y0, poor in y1	3	5 (52)	0 (.)	0 (.)	13 (49)	18 (50)
4 Not Poor in y0, not poor in y1	4	139 (50)	120 (65)	21 (47)	1961 (52)	2241 (52)
Total		273 (49)	193 (63)	31 (52)	2080 (52)	2579 (53)

A distinction between two different ways in which one can define the efficacy of the state in building a safety net against the probability of becoming poverty-stricken may be useful. From a static point of view, the problem is simply to identify how many households would have been poor without cash transfers, and how many manage to cross the poverty threshold by adding transfers to other family income. In Table 8, the relevant information is contained in the first two rows for 1991, and in the first two columns for 1993; considering for example 1993, the total number of poor households is the sum of the two column totals (466), but of these, only 273 remained poor after the receipt of cash transfers. An elementary index of static efficiency of income maintenance instruments can therefore be represented by the ratio between the number of poor households in terms of y0 but not of y1 (193), and the number of households who are poor in terms of y0 (466) only, yielding 0.41: 41% of poor households before state intervention manage to emerge above the (new) poverty line after the receipt of cash benefits. For 1991, the corresponding value is 119/319=37%, and for 1995 (data not shown) 38%. The closeness of these values strengthens their credibility. Conversely, these simple ratios show that about 60% of poor households remain poor in spite of state intervention. To sum up, the most immediate and simple indicator of static efficacy of the system of cash transfers in protecting people from poverty is given by the ratio:

$$(\text{Poor in y0 and not poor in y1})_t \,/\, (\text{Poor in y0})_t$$

On the other hand, from a dynamic point of view, we are interested in understanding the efficacy of cash transfers in reducing the risk of suffering violent fluctuations in current income, that is, fluctuations that lead to falling below the poverty line. How many households became poor between 1991 and 1993? How many of them managed to avoid this transition after cash benefits? Row 4 of Table 8 shows the conditions, in 1993, of those households that were not poor two years earlier in terms of either y0 or y1. 139 of the latter were poor in 1993, even after the intervention of cash transfers, while 120 would have become poverty-stricken, but avoided it thanks to assistance transfers. Considering also the 21 households who became poor because they did not receive cash transfers (or received an amount insufficient to compensate for the rise in the poverty line in the passage from y0 to y1), a simple indicator of the dynamic efficiency of the state in protecting people from the risk of falling into poverty between two periods t and t+1 is therefore represented by the ratio 120/(139+120+21)=0.43. The same index computed for the 1993-95 period yielded 0.49, and 0.41 over the 1991-95 interval. The index of the dynamic efficiency of cash benefits can therefore be represented by the ratio:

$$[(\text{Poor in y0, not poor in y1})_{t+1} \cap (\text{Not poor in y0 and y1})_t] \,/$$
$$[(\text{Not poor in y0 and y1})_t - ((\text{Not poor in y0 and y1})_t \cap (\text{Not poor in y0 and y1})_{t+1})]$$

On the basis of this table, the safety net of the Italian welfare state would therefore appear to be characterised by remarkable effectiveness in reducing the probability of falling below the poverty line after income losses: cash transfers would allow about 40% of the new poor (in terms of pre-transfer income) to escape poverty.

These data, however, conceal some essential characteristics of the "new poor", and in particular, a deep imbalance between generations. Many of those households who were not poor in 1991, and were poor only in terms of y0 but not y1 in 1993, were found to be new receivers of old age supplementary pensions, which integrate the value of accrued pension up to the statutory minimum level. Therefore these are older households. On the other hand, the average age of the heads of those households that were not poor in 1991, and were still poor in 1993 even after cash benefits (row 4, col.1) was much lower (50 years versus 65 for the households in row 4, col.2). The high dynamic efficiency of cash transfers therefore seems to depend mainly on the high number of new beneficiaries of public pensions, whereas for lower age brackets, the efficiency is markedly lower. Moreover, it is clear that there must be a correlation between the static and dynamic aspects of the same phenomenon. In fact, even the static efficiency shows a great distortion in favour of old ages, as shown by the different average ages associated with the totals of the first two rows (for 1991) and the first two columns (for 1993). In both years, the average age of the heads of the households in the first two rows (1991) or columns (1993) is 56, but the average age of those remaining poor even after assistance transfers is much lower than that of those who managed to escape poverty after transfers (50 versus 65 in 1991, 49 versus 63 in 1993).

To verify this generational distortion, we can redesign Table 8 only for those households with heads under 60 years. The table is not presented here, but we can report that in this case, the indicator of dynamic efficiency was 0.22 in the passage from 1991 to 1993, 0.25 between 1993 and 1995, and 0.16 between 1991 and 1995, i.e., cutting the values found over the whole sample by about half.

Table 9 shows the distribution of households that were not poor in 1991, but that would have been poor without cash transfers, according to their poverty patterns in terms of post-transfer income. Column 1 lists the share of those households that fell below the poverty line in 1993 and remained poor after transfers, while column 2 presents the share of households, for each group, that avoided poverty thanks to state transfers[17].

[17] We do not consider here those households who are not poor in the starting year, and are poor only in terms of post transfer income in the final year.

Tab. 9 Households not poor in 1991, and poor in terms of pre-transfer income in 1993

	% of households that were not poor in 1991 and were poor in terms of both pre- and post-transfer income in 1993	% of households who were not poor in 1991 and were poor only in terms of pre-transfer income in 1993
Age of reference person	**1**	**2**
<=29	89	11
30-39	78	22
40-49	85	15
50-59	71	29
60-69	41	59
>=70	11	89
Professional status of reference person		
Self-employed	89	11
Professional	93	7
Manual worker	84	16
White collar or teacher	76	24
Manager	/	/
Retiree	16	84
Pension recipient (no work history)	37	63
Unemployed	86	14
Other	76	24
Number of family members		
1	27	73
2	29	71
3	76	24
4	71	29
>4	80	20
Total	54	46

The table clearly shows that the degree of protection against the risk of falling into poverty is markedly different across demographic groups, being high for the elderly, and low for the unemployed, the self-employed and households with children: cash transfers offer protection against transitions into poverty when they are accompanied by specific demographic characteristics, particularly lower ages and some particular professions of the reference person.

In addition to the effects of public transfers on poverty distribution, it is interesting to investigate their consequences on the level of poverty, and again, they can be seen from a static or a dynamic point of view. According to the static approach, the relevant indicator is what is known as poverty gap efficiency, i.e., a measure of the percentage reduction in the poverty gap (measured in terms of income deducting cash transfers) of those households that were poor before public intervention, regardless of whether they were poor only during one or more than one spell. On the other hand, from a dynamic perspective, we are interested in verifying how much of the poverty gap of the *new* poor only is filled by cash transfers.

The index of the static efficiency of cash transfers in the reduction of the poverty gap is therefore:

$$[PG_{y0}(\text{Poor in y0})_t - PG_{y1}(\text{Poor in y0 and in y1})_t] / (PG_{y0}(\text{Poor in y0})_t)$$

where PG_{yi} is the total poverty gap, i.e., the sum of the individual differences between the poverty line family and income, computed with or without public transfers; the poverty line remains fixed at the y0 level. In other words, from the total poverty gap before state intervention, we subtract that part which remains after transfers (computed only for those households that remain poor even after them), and the difference, i.e., the poverty gap eliminated by cash transfers, is divideb by the initial poverty gap.

The index of the dynamic efficiency of assistance transfers in the reduction of the poverty gap is therefore:

$$[PG_{y0}((\text{Poor in y0})_{t+1} \cap (\text{Not poor in y0 and y1})_t) - PG_{y1}((\text{Poor in y0 and y1})_{t+1} \cap (\text{Not poor in y0 and y1})_t)] \;/\; [PG_{y0}((\text{Poor in y0})_{t+1} \cap (\text{Not poor in y0 and y1})_t)]$$

The indexes resulting for our sample are shown in the following table, as are the indicators of the efficiency in the reduction of poverty incidence.

Tab.10 Static and dynamic efficiency of cash benefits in reducing the frequency and intensity of poverty

	Static efficiency			Dynamic efficiency	
	Poverty Incidence a	Poverty Intensity b		Poverty Incidence c	Poverty Intensity d
1991	37	67	1991-93	43	63
1993	41	61	1993-95	52	67
1995	38	57	1991-95	39	54

a: % reduction in number of all poor households
b: % reduction in the poverty gap of all poor households
c: % reduction in number of newly poor households
d: % reduction in the poverty gap of newly poor households

The most significant result concerning the reduction of the poverty gap proved to be the closeness of the static and dynamic indexes. We expected higher values for the dynamic indicators, as the dimension of the poverty gap is typically lower for the new poor than for the long-term poor. This is probably due, again, to the role of old age supplementary pensions, which represent nearly 40% of total benefits, and are a very important source of income for their recipients, unlike family benefits, for example.
As for efficiency in the reduction of poverty incidence, along with the considerations made above concerning the necessity of computing different dynamic indexes for specific population sub-groups, we should add that the value of about 40% for the static indicator is intermediate between 17% for the United States and 65-70% for Germany and the Netherlands, according to Headey et al. (1997)[18]. Even if the results are not fully comparable because they take into account also direct taxation, it is difficult to believe that the inclusion of the personal income tax may alter Italy's relative position. In this case, it is likely that, as personal taxes are progressive, the distributive efficiency of the Italian tax-benefit system may come closer to that of the other European countries.

2.2 Who are the excluded from the safety net?

As previous section has shown with respect to the age dimension of the dynamic efficiency of the safety net, not all households can rely on an equal degree of protection against poverty spells. This section aims at analysing which socio-economic groups, apart from being more exposed than others to the risk of poverty in a dynamic context, are also less likely to benefit from the safety net regardless of the length of the poverty spell. There are indeed many reasons to suspect that the current structure of the Italian cash transfer system may not be able to provide homogeneous protection to all needy citizens: total social expenditure is greatly biased towards the elderly, while the share devoted to the support of the unemployed and family burdens is very low in terms of European standards (European Commission 1998).

[18] The values refer to 1989.

Tab.11 Degree of protection of cash transfers by household characteristics in 1995 (Panel households)

	Head Count in terms of pre-transfer income	*Head Count in terms of post-transfer income*	*Ratio of average transfer to average poverty gap for the pre-transfer poor*	*% of poor households in terms of pre-transfer income with:* *Transfers = 0*	*Transfers < average*	*Transfers > average*	
Geographic Area							
Northwest	8	4	0.97	22	45	33	100
Northeast	6	3	1.14	14	32	53	100
Centre	10	6	1.03	13	38	49	100
Southwest	30	23	0.67	27	29	43	100
Southeast	23	15	0.66	21	49	30	100
Age of reference person							
<=29	27	21	0.99	66	14	20	100
30-39	17	15	0.48	31	44	25	100
40-49	12	11	0.34	31	44	25	100
50-59	12	11	0.52	40	31	29	100
60-69	17	7	1.05	6	37	58	100
>=70	20	8	1.44	9	27	65	100
Education of reference person							
Primary or no schooling	24	14	0.91	13	35	52	100
Secondary school	16	14	0.54	41	34	26	100
High School	5	4	0.38	38	40	22	100
College degree or higher	0	0	/	0	0	0	0
Professional status of reference person							
Self-employed	16	18	0.14	94	7	0	100
Professional	7	7	0.05	84	7	8	100
Manual worker	17	14	0.59	1	66	33	100
White collar or teacher	3	2	0.83	2	79	19	100
Manager	0	0	/	0	0	0	0
Retiree	13	5	1.24	6	25	69	100
Pension recipient (no work history)	34	17	1.32	9	39	52	100
Unemployed	59	49	0.37	56	17	27	100
Other	14	10	0.36	13	70	17	100
Agriculture	36	22	0.82	17	21	62	100
Industry	13	9	0.60	30	30	40	100
Services	11	9	0.57	30	40	30	100
Number of earners							
1	17	15	0.42	35	43	22	100
2	3	3	0.16	68	22	10	100
Number of children							
0	18	6	1.59	11	28	61	100
1	10	9	0.50	36	27	37	100
2	13	12	0.41	31	52	17	100
3	21	17	0.56	26	32	41	100
>3	53	48	0.32	29	44	26	100
Total	*16*	*10*	*0.76*	*23*	*35*	*42*	*100*

Table 11 contains the poverty head count ratios before and after cash transfers for some demographic types, and the distribution of poor households, within each group, according to the level of the transfer itself. The poor families were then subdivided into three groups: those who, at

any poverty level, do not receive any cash transfers, those who receive benefits that are below the average amount (5.6 million lire per year at 1995 prices) defined over all poor households in terms of pre-transfer income, and finally those who obtain more than the average amount. This distinction was made to reveal the presence of many households that do not manage to receive subsidies even if they are actually poor on a pre-transfer income basis, and that some households do receive benefits, but of limited amounts, and very probably unable to significantly change the quality of their life. Although static since was carried out on the 1995 year, this analysis complements that of the previous section and the study of all poor households in 1995 allows us to work on a greater number of cases.

A significant share of poor households receives only limited protection from the state: 23% of those households who are poor in terms of pre-transfer income do not receive any subsidies. The probability of not receiving significant aid from cash transfers is not uniform across the population, and the degree of protection, in terms of the average coverage of the distance between initial income and the poverty line, is quite variable among the different social and demographic groups. The probability of not benefiting from any safety net is higher for the self-employed and the unemployed. The ratio between transfers and the poverty gap is higher in the North than in the South, and in the oldest segment of the population, and therefore among pensioners. On the average, it is very low for households with a self-employed head, when one or more children are present, and among the unemployed. The total head count ratio drops by 38%, but this average conceals great inter-group differences, for example for the over-70 group, it fell by nearly 70%, and by only 17% for the unemployed, even starting from a much higher initial poverty incidence. For the self-employed, the head count ratio even increased in the passage from net to gross income, as a consequence of the increase in the level of the poverty line, which was not compensated by a corresponding transfer to them.

A possible objection to these results is that the variable used to signal the state of poverty, i.e. current disposable income, is subject to transitory shocks which may not correspond to actual variations in living standards, for households may use their accumulated stock of wealth to maintain a constant flow of consumption. State intervention in these cases would not be appropriate, given that these changes are only transitory and can be reversed in the near future. According to this view, it would not be very surprising to find that the self-employed are poorly protected by assistance benefits, because their incomes are traditionally more volatile than those of other family types. To check the validity of our findings, we repeated the analysis with poverty defined in terms of consumption, both total and after deducting expenditure in durable goods[19]. We defined "potential consumption" as the difference between consumption and assistance benefits, i.e., the amount of consumption that would be possible in the absence of benefits. Those households that proved to be poor in terms of potential consumption can thus be defined with more confidence as actually poor before the intervention of social assistance, as consumption is typically less volatile than income, and should correspond more closely to the actual long-run living standards of a household. We then analysed whether households that are poor in terms of potential (total or non-durable) consumption can rely on cash benefits with equal footing, or the same inter-group differences mentioned above concerning income poverty hold true. The results can be summarised with the aid of a simple regression analysis, where the dependent variable is the (log of) total amount of cash transfers received, and the sample is restricted to those households that were poor in 1995 in terms of either pre-benefits income or (total or non-durable) consumption.

[19] Expenditure in durables is very volatile along the business cycle, and is very unequally distributed across households , so its inclusion could make consumption less representative of the actual long-run living standard.

Tab.12 Regression of the (log of) total cash benefits on poor households

	Poor in terms of pre-benefits income		Poor in terms of pre-benefits total consumption		Poor in terms of pre-benefits non-durable consumption	
	Coef.	t	Coef.	t	Coef.	t
Age <=29	-.7899475	-0.805	-3.990705	-4.099	-3.342242	-3.577
30-39	.9225836	1.365	-1.082844	-1.566	-1.506191	-2.018
40-49	1.230936	2.258	-.2467254	-0.430	-.503449	-0.835
60-69	.6318646	1.085	.3661107	0.743	.4113773	0.799
>=70	.2019837	0.315	-.0851296	-0.160	.0535683	0.096
Primary or no schooling	1.149732	1.877	1.108254	2.068	.128536	0.199
Secondary school	.2885445	0.481	.3892188	0.700	-.2687814	-0.389
Manual worker	.3052818	0.449	.1238935	0.216	.3577683	0.559
Manager	2.111856	0.500	(dropped)		(dropped)	
Professional	-7.085068	-4.508	(dropped)		(dropped)	
Self-employed	-6.353322	-9.134	-5.257214	-7.644	-4.42948	-5.770
Unemployed	-3.742423	-4.942	-1.659134	-2.378	-1.718494	-2.442
Retiree	-.1104189	-0.132	-1.549398	-2.292	-1.032061	-1.413
Pension recipient (no work history)	.5257475	0.658	-.473244	-0.736	-.0182393	-0.028
Agriculture	.5395842	1.193	.742038	1.738	.6905799	1.542
Industry	.3781533	0.928	.8971282	2.288	1.062587	2.627
No. children aged 0-2	-.504696	-0.991	-.2600211	-0.527	-.0505832	-0.088
No. children aged 3-5	-.4741102	-0.989	-.1287394	-0.268	-.5041899	-0.995
No. children aged 6-10	.1930846	0.531	-.3648961	-1.063	-.1315012	-0.357
No. children aged 11-17	-.6372	-2.257	-.8609893	-3.071	-.8184435	-2.869
No. children ages >17	-.3629098	-2.052	-.5537875	-3.631	-.497143	-3.091
No. adults	1.174578	4.227	.8838626	3.972	.7308872	3.197
Single parent	.7735438	0.863	.7819756	1.062	1.078563	1.433
Central Italy	.8750618	1.668	.9450389	2.086	1.114012	2.310
Southern Italy	-.2183474	-0.580	-.1169572	-0.347	.1184158	0.333
Yrel or Crel or Cnrel	-1.603833	-2.818	-1.530471	-4.907	-1.028131	-3.813
Constant	4.059358	3.779	6.261522	6.664	7.132433	6.811
Number of observations	375		294		263	
Adjusted R squared	0.508		0.498		0.467	

Yrel = (pre-benefits income – poverty line) / poverty line
Crel = (pre-benefits total consumption– poverty line) / poverty line
Cnrel = (pre-benefits non durable consumption– poverty line) / poverty line
The shaded coefficients are significant at the 5% level.

Most of the significant variables are common to the three regressions, indicating that there is a positive correlation between income and consumption as measures of living standards. For example, 62% of the households that were poor in terms of pre-benefits income were also poor in terms of total consumption (43% if non-durable consumption is used). After controlling for the distance from the poverty line with the variable yrel (crel and cnrel for the other two regressions), indicating that the lower is the household net income (or consumption) with respect to the poverty line, the higher is the amount of benefits, the negative effect of being, *ceteris paribus*, self-employed or unemployed can be clearly perceived. This result is robust to the choice of income or consumption as the reference variable. The quantitative importance of the "self-employed" variable decreases slightly but constantly in the passage from income to non-durable consumption, indicating that income volatility is certainly playing a role, but also that it does not suffice to explain the whole story. On the other hand, for the "professional" category, all poor households appear as such only in terms of income, not consumption.

The role of the number of adolescent and adult children - many of the latter are probably students or unemployed and still living with their parents - is confirmed and also strengthened using consumption instead of income. Households headed by a young person (under 40 years of age) clearly appear to be under-protected if consumption is used instead of income. Finally, those working in the industrial sector or in the central part of Italy are more protected than other households.

We also attempted a two-stage regression to check for possible problems of sample selectivity of the observations in the pool of poor households, but the null hypothesis of independence between

the benefits equation and the probability of being poor in pre-benefits income was accepted, for a variety of sets of independent variables[20].

To sum up, the Italian social assistance system is composed of a series of schemes that make eligibility transfers dependent on a mixture of income and professional or demographic conditions, so that being poor in terms of income may not be a condition sufficient to receive adequate transfers, and conversely, the probability of receiving a transfer varies, for a given income level, according to the social and demographic characteristics of the household. For example, a person who has lost a job is more protected than those who are looking for their first occupation, benefits to cover family burdens vary according to the profession of the reference person, and the minimum pension for those who have a contributory record differs from the social pensions for poor elderly.

2.3 Minimum income and poverty dynamics

One of the possible reasons for the presence of a marked degree of inter-group differences in the coverage and amount of assistance benefits across Italian households is the lack of a universal minimum income guarantee, as temporary protection in situations of particular need and administered at the national level. Many local authorities provide some form of minimum income, but in a totally uncoordinated and discretionary manner. Recently, however, the government has introduced an experimental form of minimum income, and the aim of this section is to examine to what extent this new scheme can represent a safety net against situations of transitory economic hardship. After a brief description of the main institutional characteristics of the Italian Minimum Income (MI), its effects on the mobility of incomes, and particularly on the transitions from non-poverty to poverty, are studied. The minimum insertion income (in Italian, *Reddito Minimo di Inserimento*) is likely to represent a decisive step towards the adoption in Italy of a universal instrument for the alleviation of poverty, modelled on the basis of the safety nets present in almost all European countries (Eardley et al., 1996). In an initial experimental phase of three years, starting in 1999, MI has been introduced only in 39 local areas (among which Naples, Catania, Genoa, and Reggio Calabria), chosen according to a complex set of social and economic characteristics, and mainly concentrated in the southern part of Italy, its poorest geographical area. The minimum income for 1999 was set at 0.51 million Italian lire per month for a single person, while for other households, the levels were determined through the application of the same equivalence scale described above and used in this study. Thus, the household is the reference unit to evaluate the welfare eligibility of each individual. The benefit is set so as to cover the difference between minimum income itself and total disposable household income (including other forms of social assistance). Earnings are included in total household income only for 75% of their total amount, to attenuate the poverty trap, so that the scheme reproduces a negative income tax with a marginal tax rate of 0.75, covering a constant share of the poverty gap (the difference between minimum income and household income). Any financial assets, however limited, constitute a condition leading to a loss of eligibility, this being a rule perhaps imposed by the nature of a scheme aimed at alleviating situations of particular hardship and social exclusion. As for real assets, only home ownership is allowed. Any other real assets lead to the loss of the benefits. Receipt of minimum income is conditional upon joining a job insertion program, as devised by the local authorities with the objective of having the beneficiary re-enter the labour market through the acceptance of any job proposals, the attendance of training courses, and involvement in socially useful activities. This participation condition does not apply to households with children under 3 years of age or with seriously disabled persons. If this measure is extended to the whole population, some simulations on the SHIW sample have shown that it will cost about 2,500 billion lire per year (Prometeia 1998).

[20] We also tried a tobit specification, as the dependent variable is zero for a significant subset; the coefficients significantly different from zero proved to be the same, and the correlation coefficient between the fitted values of the ols and tobit regression was around 0.99 for both income and consumption.

MI should represent, at the end of the experimental phase, the third step in a system of benefits aimed at contrasting situations of economic difficulty: if a person loses his job, he can receive unemployment benefits from the wage supplementation fund (in Italian, Cassa Integrazione Guadagni), equal to a substantial share of the previous wage, for not more than one year, then a mobility allowance providing a lower share of the wage, and finally, if he still has not managed to find a new job, the MI, a universal safety net open to all citizens, not only to members of the labour force. However, only the MI will be available for the self-employed, who in Italy represent a substantial share (nearly 30%) of the labour force, and for people who have never been employed.

The introduction of MI is an important piece of a wider reform process of the Italian system of social assistance that is currently underway and is starting with a complete revision of the targeting system: from an uncoordinated and often irrational set of means testing instruments, mostly based on taxable income, towards a unique criterion to ascertain the economic conditions of those wishing to apply for cash transfers or benefits in kind. A new indicator of the economic condition of a household, called ISE, (in Italian, *Indicatore della Situazione Economica*, Indicator of the economic condition), has been recently introduced. It consists in a linear combination of the values of incomes and assets of the family[21]. The adoption of a new targeting system is seen as a necessary precondition for the shift from a welfare state based on categories to a universal one, for only with a reliable and efficient test of means can a welfare system be based on universal schemes open to all individuals, satisfying only the conditions of citizenship and need. MI should actually represent the most significant move towards universal criteria in the pool of potential beneficiaries. Many obstacles can jeopardise the success of the new system, of which ISE and MI are the first steps. More specifically, all of the criticism against means-testing applies here (Atkinson, 1996): the risk of placing a substantial share of households into a poverty trap, the problem of low take-up levels, the distortion effects of the informal economy, the inefficiency of the public administration which should ascertain the actual economic conditions of applicants and organise the job insertion programs for MI recipients. This last problem seems to be the most serious one for Italy, especially in the case of the local authorities in the South, where most of the poor are concentrated. As for its disincentive effects, little can be said in this particular case, but thus far the literature has concluded that disincentive effects from safety net schemes are certainly present, but they are of limited quantitative significance (Atkinson, Mogesen, 1993).

To examine the consequences of the introduction of MI on income mobility we simulated its effects if it had been in force since 1991. In terms of the efficiency indexes illustrated above, its introduction would have a negligible impact on the poverty diffusion indicators, while the poverty incidence indicators would have increased by no more than 0.4 points. Such a limited effect on poverty dynamics can be better interpreted using the following table.

Tab.13 Transitions from and into poverty of households eligible for MI (1991-95 panel)

1991-93				1993-95				1991-95		
Poor in 1991	Poor in 1993	%	% with RMI in 1993	Poor in 1993	Poor in 1995	%	% with RMI in 1995	Number of years in poverty	%	% with RMI in 1995
No	No	84.5	0.0	No	No	84.1	0.0	0	81.7	0.0
No	Yes	7.0	4.6	No	Yes	4.0	2.1	1	9.0	0.1
Yes	No	3.7	0.0	Yes	No	5.3	0.0	2	6.2	5.7
Yes	Yes	4.8	15.0	Yes	Yes	6.5	17.1	Always	3.1	26.4
Total		100	1.1			100	1.2		100	1.2

The poverty line is here defined in terms of disposable income gross of existing cash benefits, but net of MI, given that the objective is to examine the effects of MI on the existing situation. In each of the two sub-periods considered, about 84% of the households had incomes above the poverty line

[21] Briefly, ISE = Income + α Wealth , where α (between 0 and 0.2) is chosen by the institution providing the transfer in cash or in kind.

(81.7% in the five year period). In each of the two sub-intervals ('91-'93 and '93-'95), MI would have been assigned to 15-17% of households that were poor in both years, but only to 4-5% of the households that became poor. This same information can be obtained from the last column, which shows that only those who were persistently poor would have had a significant probability of receiving MI. This explains why the dynamic efficiency of MI in fighting poverty is virtually equal to zero, while its static efficiency is positive, but low. This should not come as a surprise, for MI was devised as a last resort scheme against the risk of extreme social exclusion, while other instruments should help in periods of transitory poverty. However, the table also shows that only one fourth of those families that were poor in the entire five-year period - a period that is sufficient to lose eligibility for other forms of benefits - could have received the MI. Given its current configuration, therefore, MI would have had a limited impact on those households that appear, in our sample, as persistently poor, for at least two reasons:

1) The income threshold for MI eligibility is significantly lower than the poverty line. For a single person, for example, MI amounts to 0.46 million lire per month in 1995 values, while the poverty line was 0.75 million lire. Therefore, many poor households are simply not eligible for the MI because their income is not sufficiently low. This stringent condition is perhaps aimed at reducing the potential work disincentive effects present in such a scheme.

2) Only households without financial assets can apply for the MI. This very severe rule is justified by its purpose in alleviating cases of extreme social exclusion. However, it deeply weakens the potential role that MI could play in providing support for poor households. This condition also has an age discrimination effect, given that on the average, older households have accumulated a more substantial stock of assets than younger households. It could also discourage saving among all age groups. A limited exemption may therefore be advisable.

Conclusions

Poverty dynamics in Italy during the first half of the nineties showed a worsening in intensity and incidence during the 1993 recession. The investigation on the 1991-1993-1995 panel led to the conclusion that the poverty level did not return to the 1991 level following the 1993 recession. In fact, in some regions (especially in the south-western regions) poverty even became more widespread.

The analysis of poverty diffusion and intensity discussed in the first section of this paper also includes an analysis broken down by different households types, regions and characteristics of the households' reference person. The objective was to identify the characteristics most closely linked with poverty and its persistence (i.e., being poor for all three survey years). To the standard analysis based on incidence and intensity indices (intensity gap and FGT), we added the results of a multinomial logit estimation.[22] This analysis showed that poverty persistence is more widespread among younger and larger households, living in the central and southern parts of the country (and particularly in south-western Italy) and whose reference persons have low levels of education, are women or have discontinuous work profiles. On the other hand, the probability of experiencing poverty for one or two periods is higher for reference persons under the age of 29 or over 75 years and for households whose reference persons are self-employed, blue-collar or employed in the agricultural sector. We also analysed the dynamic events most likely to be associated with poverty and a change in the reference person was found to increase the risk of transitory poverty, whereas it did not affect the risk of persistence below the poverty line. A discontinuous work profile increases the probability of experiencing poverty.

We observed that a significant part of the new entries in poverty in 1993 and exits after 1993 are related to the change in the benefits received from public assistance programmes. The 1995

[22] Those who experiment one or two periods of poverty may however be at the beginning or at the end of a longer spell, thus the definitions of persistent or transitory poverty must be used with caution.

income distribution for households that were poor in 1993 showed that families that exited poverty spells still remained very close to the poverty line and this increases the risk of encountering new poverty spells.

The role of social assistance transfers in reducing the incidence and intensity of poverty is confirmed by the static and dynamic analysis of the second part of the paper. The efficiency of social assistance against the intensity of poverty and the probability of becoming poor show, however, a marked generational distortion affecting young households. When evaluated with respect to the ability to reduce poverty frequency, the efficiency of social assistance programmes lies in an intermediate position among those of the Anglosaxon countries and of continental Europe.

We then studied in greater detail the coverage of the Italian safety net, and found that the same factors affect its static and dynamic efficiency against poverty. Social assistance transfers are not available to all needy citizens on a uniform basis: the probability of being excluded is, ceteris paribus, higher for households with a self-employed or unemployed head, or with adult children still living with their parents. These results are robust even having taken into account the probability that poverty might be a result of short-range fluctuations in transitory income, because they have been obtained using either income or consumption as measures of living standards. Access to social assistance is dependent not only on income, but also on the participation to specific professional or demographic categories, and the consequence is an uneven degree of coverage against poverty. Thus, a move towards more universal means-testing and selection criteria would surely make the system more efficient and transparent, and less inequitable. Finally, the adoption of a national minimum income scheme would surely make the benefits system more universal, but would help a substantial share of needy households only with an increase in its threshold, or with the introduction of a small exemption on the owning of financial assets.

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