

Italy's "citizens' income" programme may be expensive and ineffective

Business and finance Mar 7th 2019

TELLERS IN POST offices across Italy dreaded being overwhelmed on March 6th, the first day of applications for the "citizens' income". In the event, claims came in a steady stream rather than the feared flood: 35,653 of them. (Another 8,492 were filed online.) Luigi Di Maio, leader of the Five Star Movement, which became the biggest parliamentary party at last year's general election, hailed the launch of his signature policy as a "revolution". But critics say the scheme is unaffordable and could blunt the incentive to work.

Despite its name, the citizens' income is aimed at the poorest Italians—more than 5m live in poverty, or 8.4% of the population, up from 3.9% a decade ago. Eligible applicants must earn less than €6,000 (\$6,780) a year, have less than €6,000 in the bank, and cannot own a car that is less than six months old. Cheats run the risk of up to six years in jail.

A single person can receive up to €780 a month; a family of three adults and two children can get up to €1,330. That compares with minimum guaranteed incomes in France and Germany, both of which have higher incomes per person than Italy, of €530 and €400 respectively. While Italy has no national minimum wage it has about 800 sectoral agreements—€1,000 a month for farm workers, for example. But Claudio Lucifora of the Catholic University of the Sacred Heart, says most small firms ignore such obligations. Tito Boeri, the outgoing head of the national social-security institute, has said that in the south 45% of employees have net incomes below €780.

Around 1.3m families are expected to apply for the scheme, at a cost of €7bn a year. For a country with a public debt of 132% of GDP, that may be too generous, says Carlo Cottarelli, a former IMF economist. He thinks the government's spending commitments and a stagnant economy (which ended 2018 in recession), could push next year's budget deficit above the European Union's limit of 3% of GDP. The government may hope that a populist triumph at the European parliamentary elections in May will soften the tone of Brussels bureaucrats. Financial markets may be less obliging.

Critics also argue that the programme is not equally generous to all. Italy's poverty threshold ranges from €561 a month in small southern cities to €827 in big northern ones. The citizens' income does not take that into account. It also rises only at a shallow rate for people with many dependants. Thus single southerners will fare better than northerners with families to support.

Worse, for a country with an unemployment rate of 10.6%, the mechanism to match people and jobs looks slack. The government says it will hire thousands of "navigators" to find jobs for claimants, but it is unclear who they will be and how

they will go about their work. Recipients can refuse two job offers but must accept their third. The law has not yet been ratified by parliament and is still subject to change. Claimants may yet be obliged to take a job only if it pays at least 10% more than their citizens' income.

Francesco Daveri of Bocconi University in Milan says the programme could prove a valuable social safety net if Italy suffers another deep recession. But he worries that the system risks reducing the incentive to work and trapping people in poverty. The scheme's effects will take time to become clear, but Mr Di Maio will hope for an immediate political payout. The first payments are due to be made in May, just before the European elections.