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Five Issues in the Design of Income Support Mechanisms: The Case of Italy

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Abstract:

Differently from most European countries and despite the recommendations on the part of the European Commission, Italy still misses a sufficiently systematic and nationwide mechanism of income support. In this paper we want to explore the feasibility, the desirability and the features of a universal policy of minimum income in Italy. We use a microeconomic model and a social welfare methodology in order to evaluate various alternatives mechanisms. We simulate the effects and the social welfare performance of 30 reforms resulting from six versions of five basic types of income support mechanism: guaranteed minimum income (GMI), universal basic income (UBI), wage subsidy (WS) and two mixed systems: GMI+WS and UBI+WS. As welfare evaluation criteria we adopt the Gini Social Welfare function and the Poverty-Adjusted Gini Social Welfare function. All the reforms are calibrated so as to preserve fiscal neutrality. The simulation adopts a methodology that allows for market equilibrium and ensures a consistent comparative statics interpretation of the results. Universal and non mean-tested transfers (possibly complemented by wage subsidy) emerge as desirable and feasible features of the income support mechanism. In the most realistic scenarios, the social-welfare-optimal policies are a modest unconditional transfer amounting to 40% of the poverty line complemented by a 10% wage subsidy or – depending on the social welfare criterion – a more generous unconditional transfer (100% of the poverty line). The reforms can be financed by proportionally increasing the current marginal tax rates and widening the tax base to include all personal incomes. The set of universalistic policies that are preferable to the current system is very large and gives the opportunity of selecting a best reform according to many different criteria.

Text: See [Discussion Paper No. 6059](#)



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