

Fiscal impoverishment in Italy: An historical perspective

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Previous research acknowledged the importance of taxes together with benefits in reducing poverty and inequality. However, little attention has been paid to the fact that even a progressive tax and transfer system can hurt the poor. Building on prior work looking at the effect of taxation on household poverty in developing countries and subnational contexts, this article considers how the income taxes most rich countries rely on to finance the public sector in many instances also serves to exacerbate and create household poverty. The only empirical evidence in the literature compares OECD-countries showing large cross-country variation in the extent to which tax and transfer system impoverish households (Schechtel and O'Brien 2023). However, in the last decades, most rich western democracies have gone through a massive welfare retrenchment, so that a historical perspective is needed to assess whether these processes had consequences in terms of fiscal impoverishment and for which socio-economic groups.

We therefore adopt a historical perspective and focus on Italy, where high poverty rates and high levels of inequality are coupled with low levels of universalism and of de-familization. Moreover, personal income tax reforms implemented from the 2000s have had ambivalent implications for low-income families. We adopt a historical perspective to consider if, to what extent, and for which groups fiscal impoverishment has varied over time.

We use the European tax-benefit model EUROMOD and the Italian module of the EU-SILC data from 2005 to 2019. Previous comparative works on fiscal impoverishment used a relative poverty threshold. Italy is one of the few countries for which the National Statistical Office (ISTAT) computes each year the absolute poverty threshold for 38 household constellations (based on the number and the age of the components) depending on their geographical area of residence (Northern, Centre, or Southern regions). The absolute poverty threshold represents the monetary value, at current prices, of the basket of goods and services considered essential for each household. Using this absolute poverty threshold has the advantage to be able to anchor economic wellbeing to the place of residence, which is highly important in the case of Italy, where persistent differences on several economic and social indicators between Northern and Southern regions exist. Moreover, not being calculated on the basis of the household income (which by definition differs before and after taxes) the absolute threshold sets a minimum of resources that remain equal when considering poverty before and after taxes.

Following Lustig and Higgins (2016), we measure two aspects of fiscal impoverishment and their trends over time: level and intensity. Fiscal impoverishment level captures the share of the population with higher market than disposable income but disposable income below the poverty line—in other words, the percentage of individuals who are made poor or poorer as a result of income taxation. Fiscal impoverishment intensity captures the degree to which the tax and transfer system pushes households below the poverty line. We first consider how trends in level and intensity of fiscal impoverishment have affected different household types, looking not just at the presence of children, but also at the characteristics of the earners in the household (e.g., birth cohort and stages of the life course).

Preliminary descriptive results show that the share of poor lifted out of poverty after taxation has remained stable between 2005 and 2019 and so did the share of non-poor household impoverished after taxes and transfers. The share of poor household alleviated after taxes and transfers increased of 5 percentage points after 2016 only. Fiscal impoverishment seems to have increased between 2008 and 2016 especially for household where the main earner was 51-60 y.o. and for singles. Regional differences are stable over time and mirror the traditional disadvantage of the Southern regions on other economic indicators. Importantly, the intensity of fiscal impoverishment shows an increasing trend from 2010 on, though marginally statistically significant.

In the next steps, we will estimate fiscal impoverishment with regression analysis to account for (i) compositional effects, (ii) the interaction between household constellations and earners characteristics, and (iii) effect of policy and economic macro-level trends.