Multivariate analysis of Social Transfers and In-Work Poverty: The Case of Reddito di Cittadinanza in Italy

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Only a few years ago, there was a general consensus that employment is one of the best means to reduce poverty and social exclusion, however, the current employment and poverty reduction nexus is throwing that consensus in the bins, at least partially. Early research on working poverty/in-work poverty focused on the scope as well as the possible causes (mechanisms: low wages, below-average labour force attachment, and high child dependency) of this now worrying phenomenon (Goerne (2011); Crettaz (2013); Crettaz and Bonoli (2011)); who all argue that there are three direct causes or mechanisms through which other factors can directly influence the risk of working poverty (in-work poverty). In addition, a body of studies (Andress and Lohmann 2008; Crettaz 2011; Frazer et al. 2011; Lohmann (2009)) holds that variations in working poverty rates among developed nations are caused by these nations' differing welfare states. Lohmann (2009) argues that the impact of transfers is, to some extent, influenced by the welfare state regime in a country, as shown by the varying impact of transfers on in-work poverty using pre- and post-transfer logit regression analysis. These studies specifically address in-work issues in relation to welfare regimes, especially in European countries, and, by extension, the effects of transfers when applicable. Despite being relatively recent, the extensive and expanding body of research on poverty at work is narrowly focused on the potential effects of some proposed policy interventions in reducing the rising rates of working poor as part of the worldwide endeavor to reduce poverty and to provide quality jobs for all. This is particularly true when the initiatives are not specifically designed to combat poverty among those who are employed. Therefore, by evaluating the effect of government transfers (Reddito di Cittadinanza (RdC) – Citizenship Income – on working poverty, we hope to help fill that gap. Citizenship income is a social transfer to citizens below a certain income threshold; however, Lohmann (2009) argues that social transfers are meant to increase household income, thus decreasing the risk of being poor for both the jobless and the working individuals. In essence, the more generous the benefits paid to working and non-working people, the greater the chances that the working poor will be lifted out of poverty (Lohmann, 2009). Is this really the case? Do transfers reduce working poverty? The answer to this question and the primary contribution of this chapter is to capture the relationships between in-work poverty, successfully applying for RdC, and in-work poverty transition after RdC by using data from the Bank of Italy's "Survey of Household

Income and Wealth” (SHIW) data - L'indagine sui bilanci delle famiglie italiane" and a multivariate probit analysis. According to the initial descriptive findings, IWP rates are lower following the RdC than they were prior to it. Furthermore, the data indicates that, as may be predicted, IWP rates are higher in Italy's southern areas than in its central or northern ones. The results of the regression analysis (on overall poverty for the time being) indicate that there is a positive and substantial association between the unobservables of RdC and poverty after RdC. This suggests that RdC raises the likelihood that a household would be poor even after observables have been considered. Additionally, the results demonstrate that, as indicated by the significant positive correlation coefficient, being impoverished before to the RdC raises the likelihood of remaining impoverished even after the RDC. Lastly, it is implied that poverty increases the likelihood of receiving RdC as indicated by the positive significant correlation coefficient between RDC and poverty prior to RDC. However, our findings indicate that getting RdC lowers the likelihood of a home being impoverished when we take RdC into account as an independent variable in explaining the probability of a household becoming poor.