

## Reference of the Practices and Experiences in Income Distribution Policy of Italy

### — Report on Training in Italy of China-EU Social Protection Reform Project

According to the workplan of China-EU Social Protection Reform Project, the Department of Employment and Income Distribution and International Cooperation Centre of National Development and Reform Commission (NDRC) organized 16 participants from the development and reform commissions of the provinces and municipalities in China responsible for the works related to income distribution. The training was organized in Rome and Milan and themed on “Effects and Tendency of Income Redistribution Policy”. The officials and experts came from the governmental organizations, enterprises and research institutions including INPS, the Italian Ministry of Economy and Finance, Bank of Italy, Italian Agency for Active Labour Policies, Italian National School of Administration, the Municipality of Milan, the Directorate General for Employment, Social Affairs and Inclusion of the European Commission, OECD, Luiss University, University of Rome La Sapienza, University Modena, the University of Milan, the Social Insurance Institution of Finland, Bocconi University, University of Rome Tor Vergata, and Corporate Value Associates. The sessions focused on the topics of income inequality and anti-poverty, social security system, digital economy and new form of employment, active labour market policies, etc. The Chinese participants had in-depth studies and discussions on the practices and reform trend of the income distribution policy of Italy, and proposed the recommendation of using Italian experiences and approaches as the reference for China to improve its income distribution policy system. The details are as below.

#### **1. The background of the income distribution of Italy.**

1.1 The household income is lower in the south and higher in the north.

As the data of the Italian Ministry of Economy and Finance shows that the annual per capita income averaged on 20,940 euros in 2016, 23,860 euros in the four northwestern regions (Liguria, Lombardia, Piedmont, Valle d'Aosta), 22,420 euros in the four northeastern regions (Friuli-Venezia Giulia, Veneto, Trentino-Alto Adige, Emilia-Romagna), 21,780 euros in the four central regions (Lazio, Marche, Umbria, Tuscany), and 16,550 euros in the six southern regions (Abruzzo, Basilica, Calabria, Campagna, Molise, Puglia). The household income in the north is higher than the south, with the per capita income in the richest northwest is 44.2% higher than the poorest south, and this gap reaches 7,310 euros.

1.2 The relative poverty is severe.

As a developed country, the absolute poverty and relative poverty are co-existed in Italy with the latter as the dominant. From the perspective of absolute poverty, the population living in absolute poverty was 4.7 million in 2016, and this number increased to 5.06

million in 2017. From the perspective of relative poverty, 17.47 million were faced with the risks of poverty or social exclusion in Italy in 2016, accounting for 28.7% of total population, 23.5% higher than the EU average level. In 2017, the population living in relative poverty increased and reached 30%. The structural characteristics of the poverty-stricken population are as follows. First, the households with foreign-born members have high poverty rate. The absolute poverty rate for the households composed all by Italians is 5.1%, while this rate is 16.4% for the households with foreign migrants and 29.2% for the ones composed all by foreign migrants. Second, the relative poverty of young people increases. The social welfare focuses more on the retired elders, yet the economic crisis affects more on the income of young people. From 2006 to 2016, the income in real term of the young families (with the adult aged below 40 yrs old) dropped by 20.9%, while the income of elder families aged above 65 increased by 1.6%. The relative poverty rate of young families is 2 times higher than the old ones. Third, the poverty is more stricken in the south. The share of people living in relative poverty is higher than 47% in the southern regions, Sardinia and Sicily.

### 1.3 The level of income inequality increases.

During recent years the population-aging is sustained in the developed countries of Europe, while the birth rate declines and the young labourforce is in shortage, which severely affect the financial sustainability of social security system. Therefore the population with low skill and education level pours into the developed countries from the low income ones, who could only get low-paid jobs at the lower end of labour market and traps into poverty even being employed, and the level of income inequality was consequently raised due to the employment. Especially in the central and northern regions where the migrants are gathered, and there is a huge wealth gap between the migrants and local habitants. The wealth gap in Italy is increased by about 2% every year, the Gini Coefficient of household income was 0.331 in 2016, higher than the EU average of 0.308. The increasing inequality and non-inclusion makes the people feel insecure and deprived, providing rich soil for the rise and prevalence of Populism.

### 1.4 The profound influence of the new-round industrial revolution.

Such new technologies as internet and intelligent manufacturing which are induced by the fourth industrial revolution bring two sides of influences. First is the employment demand. The OECD research shows that, along with the spread of advanced technologies, the needs for talents appear in a U-shaped trend, namely, the demands to higher and lower ends of labourforce increase, whereas the demand to the middle level labourforce declines. Some traditional jobs involving simple and repetitive operations are replaced by robots, and the internet-based platform employment and gig economy are prevailing. According to the survey of gig economy in Italy, the employees in this industry amount to 750,000 in 2018, accounting for 2.03% in working-age population, with the digital platforms are mainly used to organize and coordinate such works. Second is the level of wage and social protection. The high profits produced by the high technologies are in the hands of those with high competences and skills and more assets, whereas the wage level of the low-skilled labours is very low, for example, the

employees in gig economy could only earn 346 euros per month. According to INPS, platform workers are mostly aged from 30 to 50, and such form is characterized by being self-employed, temporary and discontinuous. For most of these workers, the platform jobs are the only income source, and the wage is not stable, the social security contribution is not continuous, the benefits received are not comprehensive, and they are therefore deemed as vulnerable groups.

## 2. Main policy measures of income distribution

The European countries generally believe that the income redistribution has two levels of broad sense and narrow sense. The income distribution at narrow sense includes the tools that could adjust the income directly, like tax revenue, social protection and transfer payment, etc. While the income distribution at broad sense includes the tools to solve the income inequality at source and the unfair market rules, such as to promote the balanced allocation of public resources and improve the level of employment and quality. Italy adjusts income distribution and reduces poverty and inequality through adopting various policy tools of tax, transfer payment and social security in a comprehensive way, and at the same time pro-actively stabilizes and promotes employment, actively adapts to the digital economic growth and fosters new forms of employment, strengthens vocational and skill trainings, improves the quality and efficiency of development, and builds a solid foundation for an income distribution system functional of improving efficiency and equality.

### 2.1 Design the progressive individual income tax to effectively adjust the income gap

The individual income tax in Italy is progressive with the tax rates are: 23% for income ranged between 0-15,000 euros, 27% for 15,001-28,000, 38% for 28,001-55,000, 41% for 55,001-75,000, 43% for 75,001 and above. The ambit of charges include all kinds of individual income, such as wage, real estate, asset, freelance, small business owners, agricultural production, and other income. While the income exempted from tax are social welfare and benefit income, the compensation the employee received from the employer when the contract is terminated, tuition, funeral expenses, allowance of traveling abroad or to other cities for business purpose, etc. According to the data released by the Italian Ministry of Economy and Finance, among all the residents who declared the income in 2016, around 50% earned 15,000 to 50,000 euros and their individual income tax accounts for 57% of the total revenue of individual income tax; around 5.3% earned above 50,000 euros and their individual income tax accounts for 39% of the total. OECD pointed out in its report in 2017 that per capital tax payment of Italy was 13,838 euros, ranking the 13<sup>th</sup> in 35 OECD countries, higher than average level. Its adjustment effect by tax means is at upper level among the EU countries.

### 2.2 Build a multi-tiered social protection system to safeguard social fairness and justice

Influenced by the Christianity, the concept of social fairness and justice is deeply rooted in the mind of the Italians, and is fully embodied in the building of a multi-tiered social protection system. From the perspective of funding, some are pegged with contribution, while some others are the universal benefits and are not pegged with contribution, reflecting the care to the vulnerable groups. From the perspective of expenditure, there

are mainly two categories. One category is the cash benefit including the pension expenditure and other kinds of cash expenditure. The pension expenditure includes compulsory pension system and social assistance. The expenditure for compulsory pension system is related to the years of working and contribution. While the social assistance does not involve the contribution during the years of working, and is mainly targeted to the vulnerable group with low income. Other kinds of cash expenditure covers the benefits to the disabled, blind and deaf individuals, unemployment benefit, allowance to the family with more than one child, allowance for maternity leave and sick leave, accident annuity, war pension, etc. The other category is in-kind benefits, such as hospital care, regular and special medical care, medication, etc. Such category of benefits includes the services both directly provided by public organizations and purchased by public organizations from the private sector and then deliver to the households (the basic medical care, hospital care and reimbursable medicines provided in the cooperation with private medical insurance companies). The social security system in Italy is featured by state welfare, and under the context of economic crisis, the increasing life expectancy and the declining birth rate, the government has been advancing parameter reform of social security system to increase revenue and reduce expenditure, easing the pressure of funding through adjusting replacement rate and extending period of contribution, and thus increasing the efficiency of social security system.

### 2.3 Implement the inclusive income plan to protect the people living in poverty

Anti-poverty is always an important measure for each and every administration of Italy to win the support from the constituency. Key actions are the inclusive income plan implemented since the beginning of this year, as well as the national income plan to be implemented next year by the new administration. The main measure is to provide generous allowance to the people whose income is below the minimal standard in the sync with paying more attention to employment incentives. First is the inclusive income plan implemented since January 2018, with the goal of assisting the underprivileged families, especially those with juveniles, disabled, pregnant women, and unemployed aged above 55. The recipient could receive an allowance of 485 euros every month in his/her social assistance card, and its spending is limited to ensure the allowance is used for the commodities and services as necessities. In order to ensure the policy precision, the government carries out means-tested to collect the information of the households who apply the allowance, and ensures the policy to support the people in real needs through approaches of improving basic database and enhancing inspectors' training. By June 2018, some 840,000 people were benefited from this inclusive income plan. Second is the national income plan, which is proposed by the new administration in office this year, and is expected to start on March or April 2019, with the goal to help the unemployed to sustain the life. The amount of allowance is 780 euros for an individual unemployed, 1,110 euros for a couple being unemployed at the same time and 1,400 euros if the couple has to raise the child. It focuses more on the incentives to employment in that the recipients are obliged to work 8 hours per week for the country, and the entitlement would be cancelled if they refuse the job opportunities for certain

times. The national income plan has larger coverage and higher budget than the inclusive income plan, and the expected expenditure is 10 billion euros per year to benefit 6.5 million people. The details as entitlement, incentives to works, payment method as well as how to use are in further discussion and improvement.

#### 2.4 Implement active employment policy to intervene the distribution at source

The practices of the EU countries illustrate that the policies simply targeted on the low-income group would have worse effects. The Italian government and the research institutions commonly believe that the income distribution policy should focus on solving the problem of opportunity inequality so as to achieve a good adjustment effect, and carrying out such fundamental works as employment and training. First is to establish the organization for promoting active employment. The Italian Agency for Active Labour Policies was established under Act 150 of 2015, and it sets up more than 600 PES centres nationwide with main responsibilities include: profile the job seekers, provide job counselling services, help on-line registration for the unemployed, deliver the services for the targeted groups, define the standard cost units, and carry out the activities for employers and the unemployed. Second is to make quantitative evaluation of the employment status of the labours. The on-line system is set up on which the individual and companies could declare their employment status. The quantitative evaluation standard of employment status is also improved in that the chance for the unemployed to get a job in the next 12 months is described through figures (data between 0-1 where 1 represents the least hope for finding a job), and the employment service is provided accordingly so as to ensure the precision implementation of the policies. Third is to strengthen the trainings. Targeted on the new forms of employment induced by the growth of digital economy, the systems of employment contract, social security and skill training are reformed. The training on such skills and capacities as data and information processing and interpersonal communication that could not be replaced by the robots are provided to the young people, and the protection to the vulnerable groups impacted by the digital economy is improved in a paralleled way. Fourth is to implement the Youth Guarantee plan. The companies which hire the young people aged between 16 to 29 would receive subsidies, and the amount is based on the region and the form of contract. The average is 4,030 euro per year and the highest could be 8,060 euros.

### 3. References to China

Generally speaking, Italy and other European countries lay emphasis on using various policy tools to adjust income distribution in a comprehensive way, and to forge synergy through the combination, coordination and connection of different policies. Meanwhile, they actively accommodate to the development trend of the new round of industrial revolution and digital economy. Through promoting the equality in education, employment, training and opportunity, fostering new forms of employment, maintaining market competition and allocating public resources in a balanced way, the income distribution is intervened at source, and all such measures exert effect simultaneously with the existing policy tools, complementing and benefiting to each

other. The inspiration for China to adjust its income distribution is as follows:

3.1 Appropriately deal with the relation between economic growth and social security  
The welfare countries in Europe were the models for other countries during the period of economic prosperity. However, the economic crisis and population-aging in recent years bring huge pressure to the welfare system. When building its social security system, China should have a full knowledge of the rigid characteristics of the spending in welfare, and it is not appropriate to excessively cover the demands for further improvement of life or to provide benefits too much; instead, China should stresses on building a multi-tiered social security system featured by clear definition of rights and responsibilities, appropriate level of protection, and being sustainable. China should also speed up to advance the reform of pension system, maintain the fundamental role of public pension, ensure social justice, underpin the connection of contribution and pension benefit, and strengthen the incentives. China should promote complementary pension, pension of personal savings and commercial insurance, implement tax preferential policies, and lead the workers to actively participate in the multi-tiered pension plan. China should also enhance the coordination between economic growth and the design of social security system, and make an overall plan of the relationship between economic growth, the improvement of people's livelihood and the sustainability of social security system, so that the people could gain more benefit from the development.

3.2 Give full play to tax in adjusting income gap

We should properly balance the tax burden of asset income and labour income. The personal income tax system combining both comprehensive and special categories of tax should be implemented, the matching measures and institutions for the new tax law should be formulated and issued, and the detailed scope, standard and operation of the special additional deduction for individual taxes should be clarified. The tax burden of the people below the middle income needs to be further eased, while the levy for the high income should be moderately increased, so as to improve the equality of tax burden. The tax system is to be improved by encouraging the people to give back to the society and alleviating the poverty. A scientific and efficient tax collection and management system should to be institutionalized. Through such measures as the registration system of natural person, the legal protection of tax collection and management of natural person, the reporting system of the tax-related information of the third party, the national system to collect and manage the personal income tax, etc., to set up the monitoring and control mechanism of revenue source, reinforce the collection and management of personal income tax in accordance with the law, and increase the punishment to the behaviors of tax evasion and resistance.

3.3 Improve the policy system for the basic living standard of the low income group

China should improve the indicator system to evaluate the status of the households receiving subsistence allowances (Dibao in Chinese) as well as the dynamic Dibao adjustment mechanism, promoting the effective connection between the rural Dibao

system and poverty reduction policies, implementing social protection to the rural population who meet the criteria, making full use of Dibao to ensure the basic living standard and poverty alleviation to increase income, so that the synergy of various policies could be forged. China should extend the scale of special assistance of medical care and housing and the funding in education to the low income households, and encourage the localities where have capacities to provide special allowance to the disabled elders and their main caregivers. China should pursue targeted poverty alleviation and reduction through implementing differentiated policies to the different categories of underprivileged households, and explore new approaches to alleviate poverty by asset income and ecological protection. China should also optimize the structure of its financial expenditure, laying more emphasis on public services of elementary education, medical care and social assistance.

#### 3.4 Adhere to job first strategy and active employment policy

China should set up a prudent but inclusive supervisory system to the new industries, new models and new form of business like e-commerce, mobile payment and bicycle sharing, so as to promote the sound development and create new employment in the process of fostering these new driving forces. China should strongly support the migrant workers to go back to their hometowns and start their own business, enhance policy support to guaranteed loan, investment and financing, and promote the interaction between innovation, starting of business and employment. China should also proactively promote vocational training, and make overall plan of building large-scale training center at regional level, comprehensive training center at prefecture level, and training center at county level integrating with local industries. China should put the vocational training of digital skills in close link with the demands of industrial restructuring and upgrading and market development, and set up the public employment services of full coverage in order to deliver necessary and accessible PES to various kinds of flexible employment and new forms of employment. China should strengthen the assistance and support to vulnerable groups, and deliver the synergy of the effects of employment service, vocational training and social protection to the workers in traditional industries to adapt to the impact of technological development.

#### 3.5 Underpin the foundation of adjusting income distribution.

China needs to continue to enhance the foundation works related to income distribution, and strengthen the capacity of data monitoring and policy evaluation. When setting up the information system of individual income and asset information, the relevant information of income and asset for resident and non-resident could be collected through multi channels and levels under the premises of ensuring information safety and using the information in accordance with the regulation. Technologies as big data and cloud computing could be used to innovate the monitoring of resident income and thus enhance the capacity in this regard. China needs to improve the statistical indicators related to household income, add new categories of different groups, and strengthen the research standard on middle income group. China also needs to institutionalize the comprehensive evaluation of macro-economy, relevant policies and

micro-data, and draw on international experiences to introduce micro-simulation model of income distribution and carry out evaluation to the policy implementation and result