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CREDITS

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INTRODUCTION AND SUMMARY

The Autumn ISAE Quarterly Report devoted to public finance and income redistribution provides - as usual - the ISAE analyses on the economic conjuncture, on the distribution impact of the economic policy manoeuvre on firms' and households' financial situations, on the public debt sustainability and on inter-generational equity. This time our research is endowed with new instruments leading to original and in-depth elaborations. In particular a micro-simulation model is applied to companies budget data so as to verify - through a rich representative sample - the implications of some fiscal provisions enforced by Government and a generational accounting model is adopted to introduce a new evaluation scheme to test the intra-cohort distribution effects brought about by the General Government Consolidated Accounts.

Both traditional and new statistical-econometric instruments prove limited, given the difficult task to forecast the evolution of the Italian economy in the present world situation characterised by such important shocks to international relations. The present uncertainty profoundly affects the economic systems. The impossibility to significantly evaluate the extension in time and space of what is known as "war to terrorism" - and then to imagine the repercussions on the confidence climate - hampers any assessment of the consequences of the market-operators' behaviours and of the impact of monetary and fiscal measures to prompt the economy (including the implicit support to the programmes for the enlargement of defense expenditure). The possibility that dramatic scenarios become true and involve industrialised countries is indeed echoed in the fears for epidemics and sabotages and, in this hypothesis, the Western world is much less immune than we used to believe. However, within the framework of potential events, it is worth abandoning the most unlikely suggestions and try to depict the future through alternative (though realistic) scenarios. ISAE assumes two of them: both foresee that no serious tensions on the raw materials' prices take place, as indeed it has happened so far. Based on this assumption, even in the worst hypothesis, comforting forecasts emerge, with growth rates for Italy always exceeding 1%, which is close to the nineties' average trend.

The more optimistic scenario is adopted as basic case and it is characterised by a short shock on demand. Hence, a modest recovery will emerge already since 2002, at least in Europe, alongside with a moderate recession in the U.S.A. That scenario may be corroborated by the recovery in the European stock exchanges and, partially, by the improvement of the U.S. stock exchange. In this framework, the Italian GDP might rise by 1.9% in 2001 and by 2% in 2002.

However, should expectations significantly deteriorate - as the latest ISAE Business Survey (carried out between Sept. 25 and Oct. 10) and Consumer Surveys (particularly those carried out after the war outbreak) somehow suggest, as indeed do the September Surveys on the German firms carried out by IFO -, the latter scenario might emerge, namely a long recession in the U.S.A., an American standstill averaging the 2002 figures, with a non-negligible impact on other industrialised economies. Even in this less favourable perspective, the growth in Italy would equal 1.8% in 2001 and 1.3% in 2002.

The concern and the risks making the macro-economic framework uncertain have no significant impact on public finance. The Stability and Growth Pact will be honoured (even though this does not hold true for the Stability Programme) and the deficit will continue to fall, thus showing a less worrying situation than those of the major Euro area partners (France and Germany), for which recent forecasts do not exclude a deficit rise as a percentage of GDP, so that the German deficit might even exceed 2%.

The State Sector borrowing requirements in 2001 - which showed worrying trends in early-2001 - are gradually decreasing, thanks to the positive trend of direct taxes and, to a lesser extent, to the provisions enforced during 2001. The securitisation of the proceeds deriving from the dismissal of the public real estate patrimony might prompt further improvements. With reference to 2002, the interventions aimed at sustaining the economy are all structural in nature, but part of the interventions meant to reduce the deficit - particularly securitisation - are una tantum, while others produce decreasing consequences through time.

This last point is further deepened through a generational accounting exercise applied to the public finance planning framework, which shows that only if structural provisions replace temporary measures upon their falling due, the long-term sustainability target of

the debt gets closer and more inter-generational equity is reached.

The present Report investigates the potential of generational accounting not only through a traditional approach, but also by its application to families, which represent - together with firms - one of the main viewpoints while examining the implications of the budget policies adopted by Government.

The results obtained through family generational accounting enable to study the role of benefits in kind within the public finance measures aimed at families with dependants. Social benefits, particularly expenditure for education and health care, play a more important role than monetary transfers within public programmes. The need to increase the effectiveness of human capital investments, which absorb a considerable share of families' resources, is gaining importance.

With reference to monetary transfers, generational accounting - apart from rescaling its role - outlines their categorial nature, which is linked to the presence of family allowances substantially aimed at either working or retired employees. The role of family allowances - which ambiguous oscillate between their origin as social insurance item and the new welfare objectives they have been pursuing - makes them hybrids, which jeopardises their values, though they can prompt a significant distribution, though only within the benefited category. Not only would it be necessary to avoid privileging some (and always the same) social groups (insiders), but one should turn to actions aimed at eliminating or reducing social exclusion and poverty (of outsiders) with specific, consistent and effective provisions.

That consideration perfectly suits other transfers provided by our welfare system. Think, for instance, to the interventions adopted through tax-expenditure instruments, of which there are examples also in the budget measures for 2002. Both the analysis of the distribution effects of the increased tax cuts for dependant children envisaged in the Budget Law and the examination of similar provisions enforced in the past years show that those measures do not really reduce poverty, even though they are presented as fundamental to this end. With regard to pension expenditure, raising minimum pensions to one million liras might even widen, rather than reduce, the contradictions between a social security system which does not support the economic discomfort and a pension system guaranteeing pension levels exceeding the

minimum living threshold, which today is not guaranteed to all Italian citizens. We are however aware that an accrual basis computation to compute minimum pensions cannot be applied, unless one wishes to renounce to an acceptable income for the old. It would be better to offer to each Italian citizen an amount of resources adequate to survival.

Finally, even in the health care area, an effective means-testing mechanism is lacking, and this is one of the reasons why it is difficult to modulate the co-participation of people to different kinds of benefits according to equity and efficiency principles.

Indeed, the challenges the pension and health care systems have to accept go beyond the above-mentioned problem of supporting the lowest income levels. With regard to the pension system, the problems are well known: namely the system imbalance is bound to grow as a consequence of the rise in the population dependence rate (the ratio between the old and children, on the one side, and adults, on the other) and, particularly, in the economic dependence rate (the ratio between working and non-working population). Interventions aimed at diminishing the overall pension expenditure are necessary, possibly without affecting - or even raising - unitary benefits (the only effective measure is the increase in the real retirement age), as are those aimed at modifying the economic dependence ratio. To this end, it is necessary to realise not only the role of immigrants (whose positive action is at least beginning to be clear), but also the great opportunity provided by women. The latter, through their larger participation to the labour market, might guarantee at the same time more contributions now and smaller expenditure for survivors' annuities in the future, in exchange for higher old age pensions, once reached their retirement age. The potential and much-hoped increase in the female activity rate - which today is so different in Italy from the rest of Europe - might improve social equity, economic efficiency and, at the same time, welfare state sustainability. To this end, and to impact on poverty, it is fundamental to evaluate and re-qualify the role of active labour policies, through provisions aimed at creating a workfare rather than a welfare system, particularly based on human capital investments in training, education and research.

On the contrary, there is a lower consensus as for the interventions to be included in the National Health Care System. The

problem of expenditure control must be faced together with the definition of the "package" of benefits to guarantee, but the solution does not seem at hand. The agreement reached in the State-Region Conference of August 8, 2001 - which seemed to clear the financial relations between different government levels and define the mutual commitments - risks to prove unsuccessful, because it takes for granted steps which are still difficult to implement, starting from the definition of the Essential Health Care Levels. Transforming the entitlement to receive health care benefits into a detailed list of services and evaluating its cost is a complicated operation, particularly because considerable economic interests are at stake. Pending a clear consensus on which national standards should guarantee, decentralisation may cause strong disparities between citizens according to their residence area and might imply - though in the presence of massive expenditure even larger than those necessary with more centralised solutions - considerable redistribution effects which need to be carefully monitored.

As already mentioned, the other crucial subjects of the present Report are firms. The introduction of what is known as the Second Tremonti Law (Tremonti bis) marks a U-turn in the Government fiscal policies aimed at the productive sector. Indeed, while previous incentives - i.e. the Visco Law and Dual Income Taxation (DIT) - mainly tended to stimulate the recomposition of the investment financing choices in favour of the firm own capital - so as to offset the effects of previous mechanisms which de facto made indebtedness convenient - the new instruments definitely aim at increasing investments, with no financial constraints. The Tremonti bis seems more wide-ranging, but, at the same time, it seems particularly exposed to the risk of guaranteeing a fiscal benefit on investments which would be made anyway. This is the result of a survey carried out by ISAE within its survey on manufacturing firms. The data show that companies reporting their wish to benefit from the Tremonti bis are much more numerous than those which would subscribe the Visco Law or Law n. 388/00 (though it partially depends on the time and space constraints envisaged in the enforcement of those two provisions), but many of the firms wishing to benefit from it - mainly large-sized companies and not small and medium-sized firms, as originally hoped for - have no intentions to enhance their investment programmes. The

characteristics of additionality is lacking for about half of the applying firms. However, the numerous applications to benefit from the just-introduced incentive, together with the diffused information on its existence, suggest that the messages launched to entrepreneurs are well understood and welcome.

Indeed, in 2002, the reduction of the fiscal burden obtainable through the Tremonti bis exceeds that deriving from the previous tax reliefs, except for firms in disadvantaged areas which, renouncing to the tax credit for depressed areas, loose a much larger benefit. This result derived from the micro-simulations on the budget data on a panel of companies, which ISAE shall regularly make starting with the present Report, drawn from the archive of the Centrale dei Bilanci, integrated through CERVED data, from which a representative 15,200-firm sample is drawn.

* * *

Turning to the detailed examination of the single Sections, Section 1 provides the ISAE forecasts on the evolution of the Italian economy in 2001 and 2002, according to two alternative scenarios. As already mentioned, a crucial element in both is that no strong tensions on the oil price take place, assuming an average price of 25 dollars per barrel in 2002 in the basic (more favourable) scenario and about 22 dollars per barrel in the alternative situation, given the smaller world demand. In the more optimistic alternative, a (limited) U.S. economic recovery is assumed ever since early-2002. The world trade expansion falls to 2.8% in 2001, but in 2002 it presents an acceleration (+4%). The Euro is supposed to slightly strengthen against the dollar, thanks to the effect of the currency changeover and to the persistence of a positive interest rate differential on average in 2002. In 2002 the Euro quotation would reach 0.95 dollars. In the more pessimistic scenario, the confidence climate deterioration would further reduce consumption in the U.S.A. The American recession would be more intense and would continue in early-2002 (with a GDP standstill on average during the year). This, together with a confidence fall in the Euro area, would cause a more pronounced slowdown in the European countries. The world trade dynamics would significantly diminish (1.8 and 3% respectively in 2001 and 2002, as against 2.8 and 4.3% in the basic scenario).

In Italy, even according to the more optimistic projection, the contraction of the second half of 2001 would hamper the GDP from exceeding 1.9% in 2001 and would negatively condition the 2002 evolution, when a recovery would emerge prompted both by an improvement of the international situation and by the supporting interventions adopted with the Government measures: the GDP growth rate for 2002 would however not exceed 2%. Foreign trade would be characterised by a smaller thrust from exports and by an import acceleration, with a consequent negative net contribution of foreign demand equalling 0.3%. Conversely, domestic demand would promote the development through a 2.3% contribution both in terms of consumption (thanks to the rise in the available income due to wage bargaining in the public and private sectors, to larger employment, to the household-supporting measures foreseen in the Budget Law and to the inflation slowdown) and, in particular, in terms of investments (+5% for investments in machinery, equipment and means of transportation and +3.3% in construction, following upon the interest rate reduction, the incentive measures foreseen and the effort made to thrust public works).

With regard to employment, the growth slowdown in the second half of 2001 would be mirrored late, thus reducing below 1% the unitary employment growth rate in 2002. However, unemployment might still be reduced with a rate of 9.6% in 2001 and of 9.2% in 2002. Both the foreign component - reduced by a slow dynamics of the raw materials prices and by a slight Euro appreciation - and the domestic component - thanks to the wage moderation and the accelerated labour productivity, which brake the labour cost growth per production unit - would have a positive impact on inflation (2.7% in 2001 and 1.7% in 2002).

Indeed, in the less favourable scenario, the Italian economy would be almost still till June 2002 and would grow again only afterwards. The GDP would witness growth rates equalling 1.8 and 1.3% in 2001 and 2002 respectively. All demand components will show a more limited evolution explained both by the smaller world trade development, and by the darker confidence climate of households and firms, with a downward effect on consumption and investments. The limited employment growth (0.5%) would stop the process of unemployment absorption in 2002. Inflation would fall down to 1.6%.

Abridged Quarterly Report

With regard to public finance, the General Government net borrowing in the basic scenario is foreseen equal to 1.2% of GDP in

ISAE FORECASTS: GENERAL SUMMARY
(Percentage changes, unless specified)

	2000	2001*	2002*
Gross Domestic Product	2.9	1.9	2.0
Imports of goods and services	8.3	3.9	5.1
Exports of goods and services	10.2	4.8	3.8
Resident households' consumption	2.9	1.7	2.1
Gross fixed investments	6.1	1.7	4.6
GDP growth attributable to:			
- domestic demand (net of changes in stocks)	3.2	1.5	2.3
- changes in stocks and valuable objects	-1.0	0.1	0.0
- net exports	0.6	0.3	-0.3
Current account and capital account balances (as a percentage of GDP)	-0.3	0.1	0.1
Dollar/Euro exchange rate (level)	0.924	0.902	0.950
It. Lira/Dollar exchange rate (level)	2,100	2,148	2,038
Consumer prices	2.5	2.7	1.7
Producer prices	6.0	2.2	0.2
-non-food and non-energy	3.3	1.6	0.8
Propensity to consume (% level)	88.4	89.0	89.1
<i>Per-capita</i> gross earnings in the economy	3.1	3.4	2.7
Total employment (1)	1.5	1.4	0.8
Unemployment rate	10.6	9.6	9.2
General Government net borrowing (as a percentage of GDP)	-1.5	-1.2	-0.8
General Government primary surplus (as a percentage of GDP)	5.0	5.0	5.0
Fiscal pressure (as a percentage of GDP)	42.4	42.1	41.9
General Government debt (as a percentage of GDP)	110.5	107.6	104.8
<i>m.p.</i> Nominal GDP (2)	2,257,066	2,371,918	2,470,493

Source: ISTAT.

* ISAE forecasts, basic scenario

(1) In standard labour units.

(2) Current billions of lire.

2001 and to 0.8% in 2002, as against 1.1 and 0.5% indicated for 2001 and 2002 respectively in the Forecasting and Planning Report. The debt decreases from 110.5% of GDP in 2000 to 104.8% in 2002. The deficit contraction mainly depend on an interest rate reduction, as the primary balance stabilises at 5% thanks to a parallel cut in expenditure and revenues. The fiscal pressure contraction is limited to 0.3% in

2001 and to 2% in 2002, assuming that the fiscal reforms the Government is accomplishing be enforced immediately after the forecasting period. Obviously, should the interventions aimed at easing the tax burden be anticipated to 2002, that would cause a heavier fiscal pressure easing.

In the more pessimistic scenario, the net borrowing as a percentage of GDP would equal 1.1% in 2002, 0.3% more than in the less pessimistic case. Admittedly, even in the worst hypothesis, the public finance imbalances would be restored altogether, and - according to ISAE - Italy is able to honour the Stability and Growth Pact.

While examining the fiscal adjusting measures for 2002, it is worth recalling that the provisions coincide with an official general trend modified as against the DPEF, namely the deficit decreases by about 12,000 billion liras (from 1.7 to 1.2% of GDP) thanks to the reduction in the interest expenditure, to the effects on 2002 of the provisions adopted by the present Government in 2001 and to a forecast revision. The 33,000-billion measures (including those already taken before September, but excluding those concerning structural reforms which will be included in the budget law-connected Rules and Regulations) would enable to fund the measures aimed at sustaining the economy with about 15,300 billion liras and to further reduce the net borrowing for the remaining 17,700 billion liras. Among the former measures, it is worth mentioning the fiscal cuts for dependant children, social security detaxations, including those for the new employed, interventions on the V.A.T. and on INVIM (the tax paid on capital gains accrued and actually realised on the sale of Italian properties up to 1992), financing measures for new public employment contracts, the raising of minimum pensions to one million liras and few provisions affecting capital accounts. Turning to provisions aimed at restoring balance in the General Government Consolidated Accounts, the most important ones concern the securitisation of the public real estate patrimony, measures to incentive the emersion from the shadow economy and the re-entry of capitals held abroad. The main doubts on the full materialisation of the effects foreseen by the provisions concern the securitisation proceeds, with regard to the difficulties to identify the properties to dismiss (particularly those belonging to the State). Finally, a non-negligible portion of the manoeuvre is *una*

tantum, which means other kinds of provisions should be adopted in the future, if the improvement obtained in the General Government Consolidated Accounts is to be maintained.

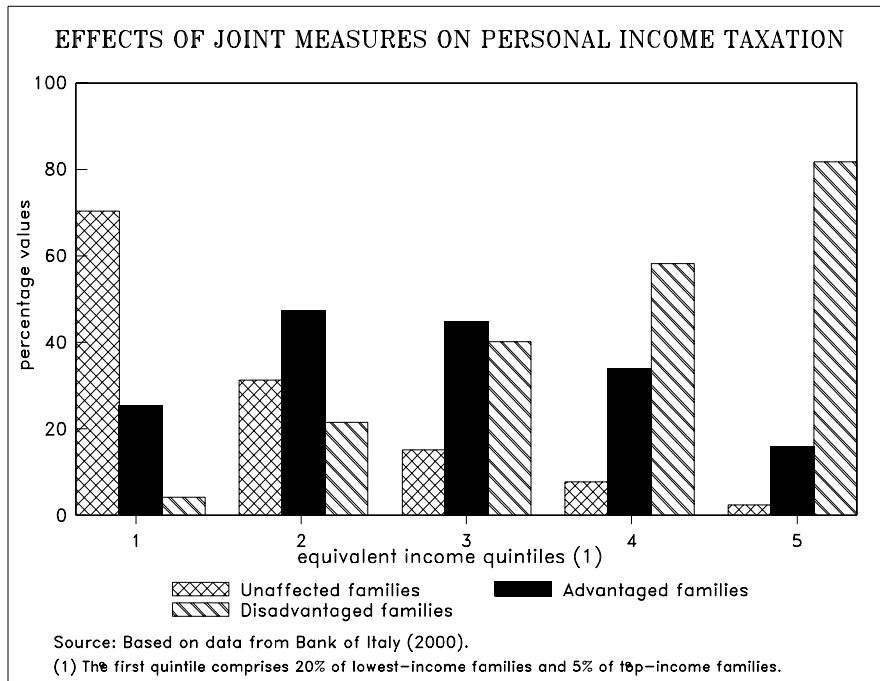
Section 2 assesses the distribution impact of the main components of the public finance measures concerning families and examines the possible implications of the modifications which are about to be introduced in the welfare state for the next months and years.

Firstly, through the ISAE micro-simulation model on families - based on the Bank of Italy Survey on Households' Income and Wealth of 1998 - the distribution effects of the postponement of the personal income tax rate cuts, foreseen by the Budget Law for 2001, are analysed together with the impact of the increased tax cuts for dependant children granted to tax payers with income below 70 million liras. Those measures, considered jointly, mainly benefit low-and medium-income families, particularly those belonging to the second and third income quintiles. Conversely, those who are penalised - compared to the situation in which they would be if the reform foreseen by the previous Government had been enforced - are families with higher incomes (fourth and fifth deciles). Looking at the balance between benefited and non-benefited families, one observes that the result is favourable for the first and second quintiles, though the distribution impact is limited. The Gini index passes from 0.3573 to 0.3561. Besides, most families with smaller income - who do not pay the tax rate or are not entitled to tax cuts - are left unaffected both by the Budget Law for 2001 and by the present provision. Thus, the effect on poverty is negligible.

Families resident in the North and in the Centre of Italy are more hit than Southern families, while those drawing benefit from the measure are homogeneously distributed in the different geographical partitions. According to the ISAE estimates on the financial effects of those measures, in absolute value and in percentage (as against the households' available income), benefited family units obtain on average about 442,000 It. Liras, that is 0.7% of their income, and that percentage decreases in the shift from lower to higher quintiles, as it happens from the South to the Centre to the North. The average loss of disadvantaged families equals around 142,000 It. Liras, and appears constant as a proportion of the available income (0.2%).

If personal income tax modifications do not substantially vary the

diffusion of economic discomfort among families, a significant effect might derive from the rise to one million liras of minimum pensions.



Indeed, with a treatment of 13 million liras per year, the relative poverty threshold adopted by the Surveying Commission on Social Exclusion (*Commissione di Indagine sull'Esclusione Sociale*) is exceeded (namely 11,794,000 It. Liras per year at 2002 prices), while at present minimum pensions and social pensions and benefits are below that figure. However, those interventions have an impact on people whose situation is very close to that enabling the exit from the poverty situation - conventionally set while the threshold is exceeded. In other words, the provision, apart from being limited to the category of pensioners, produces negligible results on the intensity of poverty, as the most serious cases of social exclusions are not tackled.

The monitoring of the trend of the pension expenditure envisaged by the Dini Reform and carried out by the *ad hoc* Commission set up by Government, shows that, in spite of the savings obtained, the forecasts on the pension burden remain worrying. The Commission forecasts are more pessimistic than the previous official estimates, but they confirm the figures ISAE has indicated more than once by suggesting to intervene to bring back trends on a path of more

sustainability. That problem shall be faced in the forthcoming months, maybe with a Budget Law-connected Decree. ISAE can but reiterate that the structural reform guidelines to follow are mainly two. The former implies an intervention on the labour market so as to favour the entry of new labour forces and raise the number of those who, while working, finance pension expenditure through their contributions. The latter requires a revision of the computation rules for benefits and eligibility criteria.

With regard to health care, the provision which immediately impacts on the families' economic situations is the postponement (and subsequent abolition) of the reduction of the co-payment on specialised medicine and diagnostics. In this case, co-payment may represent a significant cost for economically disadvantaged citizens with health problems. The whole mechanisms of co-payments and exemptions has to be totally re-depicted, both to restore the equilibrium in the co-payment required to patients for different kinds of medical benefits and to introduce means-tested forms of exemptions which today might use the electronic system and the archive set at INPS for the *riccometro* (income test).

The effects of the August 8 agreement between Government and Regions on the amount of the health care expenditure - mirrored in an *ad hoc* Decree (L.D. n. 347/01) and in the draft Budget Law - are more uncertain in their implications for families and for the future of the National Health Care System. The realistic increase in resources is subordinate to the implementation of a series of conditions involving, on the one hand, the State, which is committed to defining - in agreement with Administrative Regions - the minimum health care levels, i.e. indicating the package of benefits and performances to offer, and, on the other, Administrative Regions, taking up the responsibility to provide benefits and, at the same time, to monitor and limit expenditure, by covering possible deficits not caused by central decisions. If both levels of government shall not carry out their tasks and/or a non-cooperative game emerges, it will be difficult for the August 8 agreement to give the new thrust which is so necessary for the National Health System.

Finally, an evaluation is proposed on the distribution effects of the provision on the emersion of the shadow economy. Potential users of those measure are identified through the joint examination of

information on income and on workers reporting not to pay contributions, provided by the Bank of Italy Survey on Households' Income and Wealth, which account for 890.000 workers. Starting from the survey data, the payments due - but evaded - from those workers are computed according to the present rules and regulations, as well as the payments necessary to emerge from the black economy. This is a useful indication, given the extreme uncertainty enwrapping the problem of the estimate of the irregular economy. The elaborations enable to highlight the average cost of emersion (4.8 million liras) and the average estimate of fiscal saving per worker compared to the case of regular payment (the discount equals slightly more than 7 million liras). Notice that, in terms of distribution, the range by income bracket of the incidence of taxes and contributions - which is wide owing to the progressive taxation in the traditional system - narrows with provisions for emersion, as these foresee substantially proportional tax rates. As for the effects of emersion on the budget, ISAE estimates that its 2002 proceeds amount to 7,000 billion liras, as a result of the accounting of the whole amount foreseen in the fiscal composition agreement and the hypothesis of adhesion by 540,000 workers.

Section 3 concerns the evaluation of the impact of the *Tremonti bis* compared to the previous tax relief provisions for firms. It contains the results of a survey on the firms' resort to tax incentives carried out within the ISAE Business Survey on manufacturing firms and of a micro-simulation exercise on budget data of a significant panel of companies.

The main conclusions emerging from the two analyses may be summarised as follows:

- firstly, doubts remain on the real additionality of the investments which are entitled to tax relief as against those previously planned;
- secondly, 2001 marks a year in which old and new tax relieves may be hardly used, while 2002 will see an ampler recourse to the *Tremonti bis*;
- thirdly, the incentive introduced with the 100-day manoeuvre may be more attractive for large sized firms which, however, less than others, intend to modify their investment programmes.

In detail, surveys show (with replies weighted through the number of employees) that 87% of firms report to be informed on investment incentives enforced in 2001-02, that 59% are not oriented to modify

upwards their investment plans following upon the introduction of the *Tremonti bis* and that 52% think they can make use of the tax relief offered by the present Government. The share of firms reporting their intentions to resort to the *Visco Law* (23%) and to credit to depressed areas (12%) is smaller.

With regard to the micro-simulation results, these provide an indication on the percentage reduction of the overall tax proceeds which may be derived through the different tax relief systems in the various years. For each exercise, the existing situation of rules and regulations are reproduced as faithfully as possible, taking account also of modifications introduced during the year. Notice that the DIT shows growing effects through time and eventually reduces the tax proceeds by more than 2 percentage points in 2000, thanks to the accumulation mechanism of capital increases entitled to tax relief and the introduction of the multiplier of the tax relief base, whose freezing implies the subsequent impact stabilisation. The *Visco Law* was

PERCENTAGE REDUCTION OF TAX PROCEEDS
COMPARED TO THE BENCHMARK SIMULATION
(percentage values)

Financial Year	Dual Income Tax (DIT)	DIT + Visco Law	DIT + Visco Law + Credit to Depressed Areas	Tremonti bis
1997	1.17			
1998	1.75			
1999	2.12	4.66		
2000	2.25	4.66		
2001	2.40	3.71*	7.32*	2.12
2002	2.45	2.57*	5.46*	7.60

Source: ISAE elaborations.

* The *Visco Law* was suppressed since the II quarter 2001.

introduced in 1999 and brought the overall reduction of the corporate income tax to 4.7%. In the second half of 2001, it was suppressed and the impact of the provisions adopted by the previous Government fell to 3.7% (2.6% in 2002). Please notice that credit to depressed areas has a stronger impact but only in involved areas: it caused a reduction in the tax proceeds in those areas by 73 and 59% in 2001 and 2002 respectively. Conversely, the *Tremonti bis* has limited consequences in 2001, as it was enforced in the mid-year, but it has considerable effects in 2002. Compared to the basic scenario, where there is no tax relief, the tax saving equals 7.6%.

An evaluation of the firms' participation rate to the *Tremonti bis*

obtained through the ISAE micro-simulations shows that about 20% of companies might join in 2001 and 59% in 2002. In the current year, the incentive is only enforced in the mid-year: it will thus be difficult to make use of all the tax reliefs envisaged in the provisions preceding the 100 days as well as of those proposed by the present Government. Looking at 2002, which seems to be the most significant year in perspective, the micro-simulations show that the participation rate to the Tremonti Law seems to be quite homogeneous by geographical area (while participation reported in the ISAE Surveys seems higher in the North-West), and is higher for large-sized companies (in keeping with the results of the ISAE Surveys), and for some services (real estate, IT, research, hotels and restaurants), as well as for manufacturing activities (rubber, chemistry and means of transportation). The Survey confirms the role of chemical and car industries and also points the food, textile and leather industries and press as the area expressing wide intentions to use the facilitations contained in the *Tremonti bis*.

Turning to Section 4, one observes that generational accounting has, at least up to now, aimed at the evaluation of the long-run sustainability of fiscal policies and of their inter-generational equity. ISAE has been using a useful model to compute generational accounts for the Italian citizens for a long time and can provide traditional indicators with reference to Italy. The present Report provides indicators updated to 2001-02 assuming that the underlying public finance framework corresponds to the scenario described in Section 1. The results are then compared with those referring to the basic-case situation in 2000. This shows that, to eliminate the inter-temporal imbalance of the public budget in Italy, taxes paid by future generations should be raised by about 17% or those paid by all present and future generations should increase by 2.59% (or expenditures should be reduced by 2,75%). This result is slightly better than that obtained on the basis of the Balance for 2000 (+2.75%). However, by excluding the real estate securitisation effect - which is an *una tantum* operation - the situation is worsening and the tax rise for all generations reaches 3.75%.

Abandoning conventional analyses and turning to "family" generational accounts, these represent the present value of net taxes (taxes paid minus transfers received) which families are expected to

pay during their lifetime, under the assumption that the individuals belonging to a family in a given year shall belong to that family - according to the conventions adopted - during their whole lives. It is necessary to point out that the family unit adopted as reference consists of "minimum family unit", that is the smallest unit of people linked by either kin or marriage relations regardless of their living, together or not.

In particular, the present Report investigates the differences induced by public finance on families having the same characteristics relevant for the analysis (marital and occupational status, level of education) but differing in the number of children, by using the "marginal net subsidy", that is the difference between the amount of transfers, net of taxes, granted to a certain kind of family unit, and those which would be granted, had that unit one dependant less.

Elaborations made through family generational accounting show that the net taxes are lower for families with more children till they become negative, in some cases, due to the birth of the third child. If one looks at single components, for some kinds of families, one observes that one more child means a considerable increase in the tax burden, mainly due to the increase in indirect taxes, according to the rise in expenditure. On the other hand, the benefits obtained through children-supporting programmes are relevant. They vary according to the parents' jobs, mirroring the category-linked nature of monetary transfers (in particular, of family allowances). Admittedly, transfers in kind have a heavier weight within benefits. They only depend on the number of children, because in the profile construction one does not assume, at this level of analysis, that the opportunities to have access to education and health care varies according to the parents' characteristics and indeed those programmes in Italy have universal nature. Education is the source of most transfers in favour of families with children and account for 56% of the net present value and for 51% of the un-discounted value of the marginal net subsidy to the modal family (non working wife, employee husband, two children). It is followed by health care expenditure, the weight of which is smaller, as the use of health care services for children is relatively less frequent or limited to banal performances. For those families, the role of the National Health Care System is more important as insurance against risks rather than for the benefits offered in usual services. Monetary

transfers take up a relevant dimension only when the share of wages and salaries into family income exceeds 70%. In particular, when one

ITALIAN FAMILIES ACCOUNTS (1)
(thousands of lire)

Number of children	TOTAL TAXES AND CONTRIBUTIONS		TOTAL BENEFITS			NET TAXES (2)	MARGINAL NET SUBSIDY (3)
		of which: indirect	of which: benefits in kind	of which: monetary benefits			
Non-working undergraduate females married with undergraduate employees							
0	270,319	92,850	-149,004	-23,279	-7,574	122,737	
1	280,316	97,836	-208,536	-55,434	-13,248	71,834	-50,903
2	299,179	110,311	-278,883	-90,080	-21,531	20,827	-51,008
3	312,392	118,298	-332,969	-118,602	-27,850	-22,980	-43,807
Non-working undergraduate females married with undergraduate self-employed							
0	211,914	95,751	-112,985	-23,279	-5,089	96,808	
1	218,730	97,629	-169,480	-55,434	-6,087	47,400	-49,408
2	238,406	110,921	-232,239	-90,080	-7,512	4,061	-43,338
3	250,251	117,536	-284,030	-118,602	-8,863	-36,148	-40,209
Undergraduate female employees married with undergraduate employees							
0	436,319	98,086	-197,643	-23,279	-1,100	246,553	
1	446,703	103,166	-258,902	-55,434	-8,881	193,794	-52,759
2	464,864	114,714	-330,760	-90,080	-18,393	140,738	-53,056
3	481,215	125,960	-386,100	-118,602	-22,710	102,281	-38,458
Undergraduate single female employees							
0	257,539	59,902	-106,408	-14,296	0	151,129	
1	267,641	64,904	-172,478	-47,807	-9,885	95,016	-56,113
2	288,264	79,017	-241,480	-82,453	-17,637	46,592	-48,424
3	305,048	90,482	-298,583	-110,975	-24,319	6,232	-40,360

Source: Based on data from ISTAT (2000), Bank of Italy (2000) and *Ministero del Tesoro, Bilancio e della Programmazione Economica* (2000).

(1) Notice that families here refer to minimal family units, namely the smallest unit of people linked by either kin or marriage links irrespective of their living together.

(2) Net taxation is the balance between the taxes paid and the benefits received by families. Thus, if the sign is negative, there is a net transfer from the State to families, otherwise the transfer goes from families to the State.

(3) The marginal net subsidy is computed as the difference between the net taxation of a family with $n+1$ children and that of a family with n children.

parent is an employee, the marginal net subsidy increases for the presence of the second child and, in the case of the modal family, the amount of monetary transfers is such that - once summed to other benefits - it enables to offset the tax increase. If there are no employees in the family, the marginal net subsidy decreases as the number of children increases, children's allowance and benefits in kind are not sufficient to counterbalance tax increases.

Those elaborations point to the different interventions

characteristics of universal and category-linked nature and the distribution impact on different types of families. The Section contains a short description of the main points of the debate on this subject. ISAE confirms the opportunity to combine universality and selectivity in the definition of benefit eligibility criteria which must be based on means-testing.