

IN THE NAME OF WEAK LEGALITY? DANGEROUS RELATIONS BETWEEN CITIZENSHIP INCOME, NON-OBSERVED ECONOMY AND TAX CHEATING¹

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1. Premise

The “Reddito di Cittadinanza” (RdC²) is an anti-poverty and active inclusion measure launched by the Italian government in 2019 at the instigation of the “Movimento 5 Stelle” party. Inspired by basic income, it is a form of support for the poor³ through a periodic monetary payment and active labour policies to contrast marginality.

It is, therefore, a measure that addresses poverty from a one-dimensional perspective closely interrelated to lack of employment (Baldini and Gori, 2019; Van Parijs, 2018). The subsidy paid for average individual amounts up to €780 and increases concerning the household size. Considering that the price level in the South is 20% lower than in the North, the RdC discourages the acceptance of jobs, especially precarious and low paid ones (Baldini and Gori, 2019). Two years after the measure introduced, the beneficiaries who signed the employment pact and found a job are small. Of the approximately 1,400,000 recipients of the Rdc, only 350,000 have found a job⁴.

There is no doubt that the RdC has enabled many households to have more disposable income. This is clear from the positive change in disposable income of consumer households (See Table 2). The Mezzogiorno is the only area that, compared to the 2018-2019 period, has increased, albeit a small one, while the remaining areas show a significant decrease over the same period.

However, the increase in disposable income has not had, at least in the first year of operation of the RdC, direct effects of great magnitude on overall consumption (See Table 3). It should be remembered that the RdC was launched in 2019 and that the data published by Istat, referring to the two years 2018-2019, refer to a time range

¹ For research articles with several authors, a short paragraph specifying their individual contributions must be provided here.

² <https://www.redditicittadinanza.gov.it/>

³ <https://www.lavoro.gov.it/temi-e-priorita/poverta-ed-esclusione-sociale/focus-on/Reddito-di-Inclusione-ReI/Pagine/default.aspx>

⁴ <https://www.ilsole24ore.com/art/1-anno-e-mezzo-navigator-media-colloquio-testa-giorno-ADuHI5IB>

that is too narrow to make a long-range analysis on the effectiveness of the measure against poverty.

The incidence of this measure is very high in the Southern territories, where there are both the highest rates of unemployment and poverty and where there is an atavistic structural vulnerability of the productive system. With precise reference to poverty, as Istat points out, in 2020, also as a result of the pandemic, a little more than two million households (7.7% of the total from 6.4% in 2019) and more than 5.6 million individuals (9.4% from 7.7%) are in a condition of absolute poverty. After the improvement in 2019, absolute poverty thus increases to its highest level since 2005. Specifically, in 2020, the incidence of households in absolute poverty is confirmed to be higher in the South (9.4%, from 8.6%), but the largest growth is recorded in the North, where household poverty rose to 7.6% from 5.8% in 2019. This dynamic means that, while in 2019 poor households in our country were distributed almost equally in the North (43.4%) and in the South (42.2%), in 2020, they reach 47% in the North against 38.6% in the South, with a difference in the absolute value of 167 thousand households. Regarding relative poverty, households below the threshold are just over 2.6 million (10.1%, from 11.4% in 2019) (Istat, 2021).

Many of the abuses detected by judicial authorities are also concentrated in the South⁵. A lot of the recipients whose benefits were withdrawn were employed in the underground and informal economy and sometimes even in the illegal economy.

Therefore, the RdC is undoubtedly a measure to be improved, both in terms of a drastic strengthening of the social and labour activation components and the fight against irregularity. It is necessary that the RdC fuels a welfarist vision of welfare that is not consistent with the logic of social investment that, instead, is implemented in other European countries with some success (Marzulli and Pesenti, 2021).

Moreover, it is crucial to correlate the RdC with the Non-Observed Economy (NOE), which in the South, according to the Istat Economic and Territorial Accounts for 2018 (see Table 1), represents 18.8% of the added value with higher rates than in the Centre (13.8%), the North-East (10.9%) and the North-West (10.3%). In the South and the Islands, specifically, the share of irregular work stands out (7.5%) with significantly higher rates than in the Centre (5.0%), the North-East (3.9%) and the North-West (3.8%). Notably, Calabria (21.3%), Campania (19.8%), Sicily (19.3%) and Apulia (19.1%) are the regions where the overall incidence of the components of the unobserved economy on the added value is the highest⁶.

⁵ <https://www.libertasicilia.it/palermo-illeciti-contro-il-reddito-di-cittadinanza-condannati-per-mafia-percepivano-il-sussidio/>

⁶ https://www.finanze.gov.it/export/sites/finanze/.galleries/Documenti/Varie/Relazione_evasione_fisc_ale_e_contributiva_-Allegato-_NADEF_2020.pdf

Table 1 – Incidence of the unobserved economy on total value added - % values -Year 2018.
Source Istat.

Regions	Irregular employment	TOTAL unobserved economy (including other components)
Calabria	9,8	21,3
Campania	8,5	19,8
Sicily	7,8	19,3
Apulia	7,1	19,1
Southern Italy	7,5	18,8
Centre	5	13,8
North-east	3,9	10,9
North-west	3,8	10,3
Italy	4,9	13,1

These initial data confirm that the collection of information on the NOE is a highly complex matter. Within the NOE, there are, in fact, informal and illegal encapsulations whose precise measurement is difficult. At the most, it is possible to make estimates with information coming from tax audits that in any case, have a high degree of fragmentariness and incompleteness (Adair, 2017; Feige, 2015).

2. Objectives, assumptions, methods

The overall narrative of the abuse phenomenon has insisted exclusively on the "illegal worker" in the Sicily, Calabria, Campania, Puglia regions stigmatizing its fraudulent practices. At least one illegal worker corresponds to at least one "illegal entrepreneur" who benefits from unlawful work by lowering social security and insurance costs and reducing tax revenues for the State.

So, the RdC should therefore be analyzed with the Non-Observed Economy (NOE) that, especially in South Italy represents 18.8% of added value with higher rates than in the Center (13.8%), the North-East (10.9%) and the North-West (10.3%) (Istat, 2018).

In order to verify the link between the fraudulent perception of the RdC and the diffusion of irregular and illegal practices in the entrepreneurial and labour sphere, we hypothesise that there is a sort of propensity to fiscal infidelity.

This propensity is greater where socio-economic contexts are characterised by the presence of weak forms of legality. Specifically, "a weak form of legality occurs when an expectation or forecast of ineffectiveness, distorted, particularistic, delayed and unreliable application, avoidance, hasty reviewability is generated concerning

the legal norms in force (generally for the public policies in place) so that the prescriptions contained in them and the objectives announced in them cannot form the premises of calculations aimed at the adoption of desires by economic actors. Such norms and policies are often born with little credibility⁷ (La Spina, 2005: 162).

Our assumptions are two and are closely linked to the definition of weak legality. The first that RdC is a government measure that, paradoxically, feeds and coexists with a submerged irregular economy. This is determined by the welfarist and populist character of the measure; by the generosity of the monetary contribution transferred, which—especially in some territorial contexts such as those of the South—makes it desirable concerning obtaining a job; by the unstable labour market which allows most of the time precarious and poorly distributed jobs; by the inability of the placement system to know how to cross between labour demand and supply. The false declarations, the irregularities in the applications to obtain the subsidy and the maintenance of an odd job while receiving the subsidy at the same time confirm the widespread collective perception of the RdC, especially in some population groups, as one of the many weak rules that can be abused without incurring consistent penalties and sanctions that would act as a deterrent.

The second assumption is that propensity to demand illegal work—and therefore to give illegal job frauding the State—depends on the opportunistic behaviour of the whole economic operators (worker and entrepreneur) that use a specific value-rationality supplied by weak legality. This is linked to the institutional inability to track abuses extensively and punctually and to the provisionality and incompleteness of the measure, which makes it so obviously fragile and therefore stimulates opportunistic behaviour on the recipients and those who offer them irregularly/illegal work.

To confirm these hypotheses, we use data from:

1. The Ministry of Economy and Finance referring specifically to the unobserved economy and tax and social security evasion (2020).
2. The INPS observatory on the RdC (2020).

From these two information bases at the regional level (NUTS-2), we carry out an exploratory analysis in order to correlate the number of revocations of the RdC respectively with the number of undeclared workers and the contributory irregularities detected.

⁷ Our translation.

3. Results

It is interesting, in our opinion, to interpolate the data referred to the RdC to those referred to the widespread tax evasion and specifically to the tax gap, i.e. the difference between expected and actual tax revenues on all components.

Having available only the data provided by the Ministry of Economy and Finance (MEF) referring to 2018 and 2019⁸, and therefore to a period prior to the entry into force of the RdC, we will proceed to interpret the propensity to tax infidelity appropriately referring to business activities developed on the whole national territory.

The data mentioned above on labour-related vigilance activities show that the South is where the most critical issues emerged (87%) followed by the Centre (83.17%), the North-East (76.33%) and the North-West (71.41%).

The figure refers to the financial volume of future INPS revenues resulting from the verification of employment relationships that would have given rise to undue social security benefits. In this case, the North-West is in first place (11.2%), followed by the Centre (9.87%), the North-East (7.88%) and the South (5.59%). However, the South of Italy is at the bottom of the ranking when comparing the lower expenses detected with the overall irregularities detected by the inspection activity.

The South is no longer in the lead when analysing the number of undeclared workers detected by the total number of workers in inspected companies. In this case, the North-East is in the first place (3.72%), ahead of the South itself (2.47%), the Centre (2.24%) and the North-West (1.46%).

The same applies when referring to the gap between VAT paid and unpaid for the total number of taxpayers. The North-West is the area with the highest value (1.32%). It is followed by the Centre (1.08%), the South (1.05%) and the North-East (1.02%).

⁸ Relazione sull'economia non osservata e sull'evasione fiscale e contributiva (2018-2019-2020).

Table 2 - Territorial indicators of entrepreneurial propensity to tax and contribution infidelity. Our elaborations on MEF 2019 data.

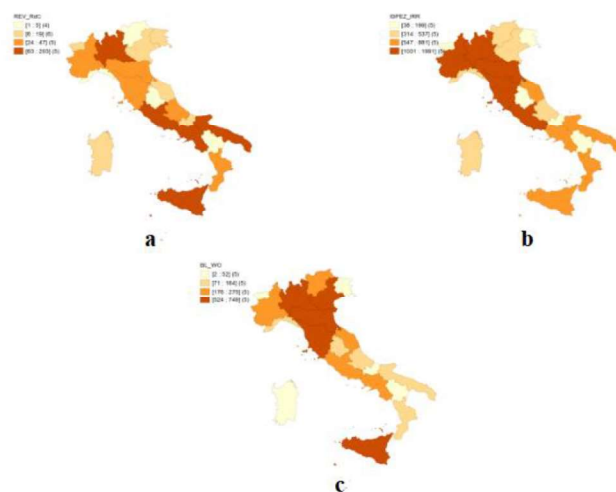
Regioni	% Irregularities on finalised GdF inspection activities	Less expenditure € * / N° Irregularities	% Illegal workers / Number of workers	% VAT Gap**/ Contributors
North-West	71,41	11,2	1,46	1,32
North-East	76,33	7,88	3,72	1,02
Centre	83,17	9,87	2,24	1,08
South	87,05	5,59	2,47	1,05

* Lower outgoings = higher future revenues for INPS resulting from the detection of fictitious employment relationships that would have given rise to undue social security benefits and therefore, for example, to undue social security contributions relief for companies and undue benefits received

** VAT Gap = Unpaid Value Added Tax

Table 3 – Correlations RdC Revocations & Illegal workers/Irregularities by inspections. Our elaboration on MEF and INPS RdC Observatory 2019.

	RdC Revocations & Illegal workers	RdC Revocation & Irregularities by inspections
South	0,51	0,6
Center	0,47	0,83
North	0,74	0,87
Italy	0,39	0,37

Figure 1 - Spatial distribution of RdC revocations (a), irregularities by inspections (b) and illegal workers (c). Our elaborations on MEF data (2019).

In order to further corroborate the previous evidence, we also carry out a Principal Component Analysis on the following indicators (related to 2019):

1. The number of complaints per case.
2. The number of inspections completed per 10,000 inhabitants.
3. The number of irregularities (in percentage values).
4. The average duration of trials.

The first-factor plan explains 86% of the variability of the data. Furthermore, the first component is strongly correlated with the number of protests, the average duration of trials and the number of irregulars, while it is negatively correlated with the number of inspections completed. Thus, there is a strong positive correlation between protests, the average duration of trials and irregularities. These three indicators are, in turn, negatively correlated with the number of inspections completed.

Table 4 – *Output of Principal Component Analysis (PCA).*

Component	Autovalue	Proportion	Cumulated	
1	2,6398	0,6600	0,6600	
2	0,8035	0,2009	0,8608	
3	0,3227	0,0807	0,9415	
4	0,2339	0,0585	1,0000	

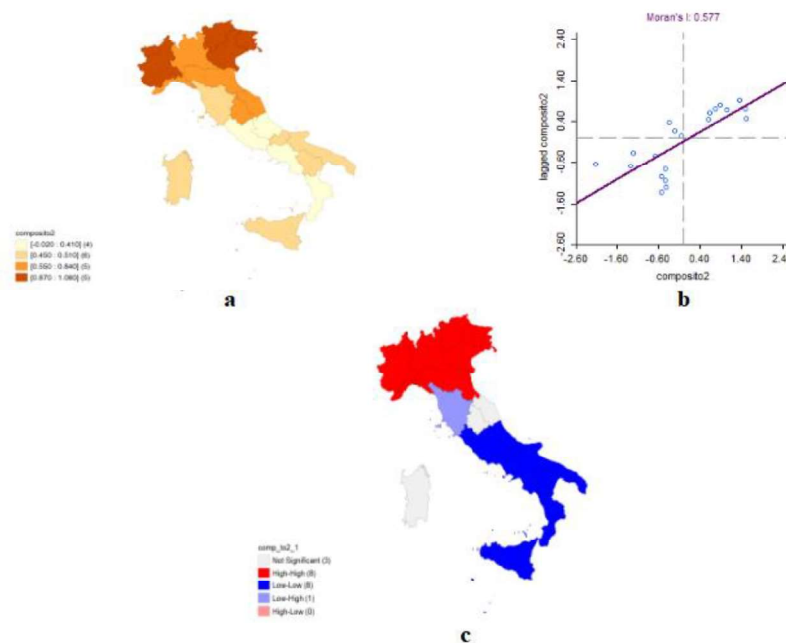
	PC1	PC2	PC3	PC4
Protests	0,505	0,515	-0,149	0,676
Inspections	-0,457	0,645	-0,549	-0,271
Irregulars	0,517	-0,365	-0,727	-0,268
Trials	0,519	0,430	0,385	-0,630

We can decipher these results by referring once again to the theoretical reference of weak legality (La Spina, 2005), according to which there are some contexts where the environmental conditions, with particular reference to specific rules and the respective activities of control and supervision of compliance with them, are fragile and favour the spread of behaviour that does not comply with the rules themselves. The inability of the institutions to control abuses and the congenital provisionality and incompleteness of the implementing rules would favour the spreading of illegal behaviours. As the analysis of the main components shows, it is possible to highlight how - also in the case of the abuses on the RdC or more generally on the lack of transparency in the working environment - the diffusion of opportunistic behaviours typical of free riders.

Using the first component we structure a composite index of weak legality, which assumes a positive polarity. In Figure 2 we can observe its spatial distribution, which shows a significant divide between Centre-North and South. This spatial distribution suggests the presence of spatial autocorrelation, which we verified performing both

Global and Local Moran Index using an inverse distance matrix⁹, the results of which are also visible in Figure 2. The global spatial analysis shows, as widely expected, a strong positive autocorrelation ($I=0.67$), which indicates that the phenomenon of weak legality has spillover effects. While the local analysis shows the presence of two large clusters: a cluster of “high-high” values in the North and an equally large cluster of low-low values in the Centre-South.

Figure 2 - Spatial distribution of weak illegality index (a), scatterplot of Global Moran Index (b) and cluster map of Local Moran Index (c). Our elaborations on multiple sources.



⁹ For robustness purposes, we also used alternative spatial weighting matrices, such as contiguity and KNN with different critical cut-off, without observing significant changes in the results.

4. Conclusions

We highlighted with the support of data that the RdC is a controversial measure against poverty that currently has several critical application issues. We also underlined how RdC is related to opportunistic behaviours of workers and entrepreneurs who prefer to defraud the State rather than implement virtuous behaviours in support of the common good (Buccioli and Montinari, 2019; Scott and Grasmick, 1981). In the final lines of this paper, we want to conclude with a reflection on the concept of poverty itself and the related concepts of work and consumption. We, therefore, want to move for a moment to the theoretical level of reflection but always remaining strongly linked to the empirical evidence of our study. First of all, we ask ourselves whether the transfer of money in the form of a subsidy to family spending to encourage consumption by subjects without spending capacity, as currently provided by the RdC, can be considered a decent solution to the condition of poverty. In the absence of mechanisms able to fully favour active inclusion, the RdC, per se, can become a practice that discourages employment, is inappropriate in a general sense and, even worse, feeds opportunistic, selfish and claiming behaviour towards the State. To dispel any possible misunderstanding, we would like to stress that we are certainly convinced of the need to fight poverty through a minimum income. However, we are also convinced that poverty must come through active policies that fully involve citizens and give work the central role it deserves. At the moment, however, it would seem that the centre of gravity has shifted to encouraging consumption, as if the monetary transfer, in itself, freed people from poverty. Aid in the form of money transfers does not emancipate and, on the contrary, can trap, if the recipient is in a position to choose between different purchase options. We are among those who highlight the need to combine learning and knowledge with conscious consumption in order to reduce, more generally, all the conditions that make possible social inequalities between those who possess resources (even in excess) and those who are not at all. We are also convinced of the need to free the field from guilt-based readings of poverty. The season of pauperism that looked at poverty as a fault and a stigma is undoubtedly over.

The condition of indigence, today more than ever in this pandemic scenario, is much more than the absence of money in one's pocket. It is correct to speak of poverty from the point of view of the absence of job opportunities and meaningful social relations. It is correct to consider inequality in terms of access to information, care, education and, more generally, the absence of opportunities to realise one's life plans and thus achieve well-being, not just the ability to buy as many goods as possible compulsively. Today it is certainly no longer the time to propose, as was done in the 19th century with the Poor Law, new workhouses where the poor and excluded are imprisoned and forced to work in order to obtain subsidies. Poverty

cannot be contrasted with a punitive, paternalistic and perhaps even hasty attitude. At the same time, however, the results of our research highlight the need for differently calibrated policies that move in the direction of an economic and social paradigm shift. The widespread presence of free-riders and, therefore, of dangerous relations between tax evasion and the receipt of citizenship income also by those who are not entitled to it and who are engaged in the submerged and illegal economy, impose the need to reflect, more globally, on the need to establish a new solidarity pact between citizens and the State.

Moreover, there is a need for more effective policies (which can do without the 'weak legality' mentioned in this article) and therefore less focused on extemporary solutions to structural problems such as poverty.

The Smithian invisible hand, the self-interest and the liberal selfish ethics that would guarantee, according to the dominant economic mainstream, the equilibrium of the market seem to fail in the face of the evidence of the constant presence of opportunistic behaviour among workers and entrepreneurs even in the presence of policies to support the most disadvantaged sectors of the population. What emerges, then, is the need for a more civil and less speculative approach and for virtuous relations between citizenship, the State and the market that are capable of restoring dignity to those in need and not for charitable instruments, such as the RdC implemented in this way, which instead of emancipating from the condition of need, as the data confirm, traps citizens in need by relegating them to the condition of mere consumers.

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SUMMARY

In the name of weak legality? Dangerous relations between citizenship income, non-observed economy and tax cheating

The incidence of requests for financial subsidies linked to the Citizenship Income (RdC) -especially in the Southern territories- is high. Here there is also the highest rate of unemployment and poverty and a structural vulnerability of the productive system. However, after two years of applying the anti-poverty measure, which also includes job placement, few people have found work. In addition, many fraudulent uses of the RdC benefit have been detected. Many recipients of RdC worked in the informal and underground economy (Frey *et al.*, 2000), and sometimes even in the illegal economy. Using data from the Ministry of Economy and Finance referring to 2018 and 2019, and relating them to the Istat national economic accounts and those of INPS, we demonstrate the presence of tax fraud behaviour appropriately also referring to entrepreneurial activities developed throughout the national territory and not only in the South and explicitly referring also to the employment of undeclared workers. The guiding hypothesis is that the presence of a “weak legality” (specifically, rules that are unable to structurally solve the problem and the absence of capillary and adequate controls against fraud) encourages workers and entrepreneurs' opportunistic behaviour deterring it.

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