Shrinking resources for development at home and abroad

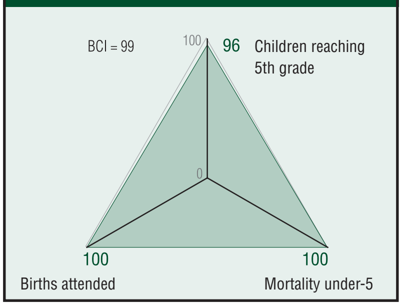
The previous five years in Italy have been marked by deep cuts in social spending, regressive fiscal policies, rampant tax evasion and a serious decline in the quantity and quality of cooperation aid. This situation has led civil society organizations to call for a radical review of the country's fiscal and development aid policies.

Italian Social Watch Coalition
Tommaso Rondinella / Jason Nardi [1]

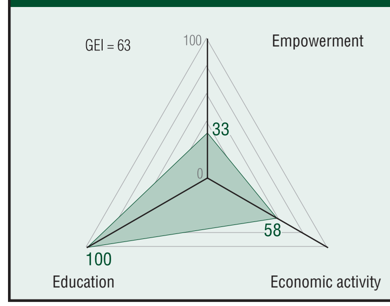
Government policies in the last five years have been characterized by the attempt to cut back the State's role and collective responsibility in favour of private initiative and the market, by reducing the resources allocated to the welfare system and undertaking severe cuts in public spending. Without resources, there can be neither an adequate welfare system to respond to the needs of the citizens, nor the necessary development support and aid for the poorest regions. In general, the local authorities (municipalities, districts and regions) are no longer able to guarantee basic services to their communities. Poverty in Italy reflects a marked difference between the centre-north regions, where poverty rates are consistently below 10%, and the southern regions, where poverty affects 20% of the population, and reaches as high as 30% in the case of Sicily. (CRISS, 2006).

The Berlusconi government drastically reduced the fund for social policies, which in the last three years has dropped from EUR 1.884 billion in 2004, to EUR 1.301 billion in 2005 (of which 482 million remains unspent), to EUR 1.157 billion in 2006, reflecting a 30% cut altogether since 2004. In addition, Italy remains the only country in Europe, except for Greece, that does not implement a guaranteed minimum income scheme. The poverty rate among families with dependent children increased between 2000 and 2004 by almost four percentage points (from 24.9% to 28.5%), and the most severely affected are the largest families, for whom the risk of poverty increased by slightly more than 10 percentage points, from 48.2% to 58.3% (NENS, 2006). Overall, an estimated 19% of Italians are at risk of poverty (CRISS, 2006), and 11.7% of the population, meaning some 2.6 million families, live below the poverty line, while the wealthiest 20% of families control 40% of the country's resources.[2]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Fiscal policies promote tax evasion

The notable recent growth of tax evasion has been promoted by the fiscal policies of the last five years. Evaded taxes total some EUR 100 billion and businesses that operate illegally account for an estimated 15% of the total GNP.[3]

The enormous extent of tax evasion increases fiscal pressure on law-abiding companies and citizens and reduces the amount of resources available for the country's economic and social development. By implementing 22 tax amnesties and the «fiscal shield» (which allows capital illegally kept abroad to return to Italy «protected»), the Berlusconi government clearly encouraged undeclared employment and tax evasion.

Regressive tax policies

The past government's efforts to reduce taxes focused on the adoption of deeply regressive measures. On the one hand, cuts in direct taxes have almost exclusively corresponded to higher revenue levels; on the other, these reductions have been compensated by increases in indirect taxes, which are regressive by definition. Moreover, the inheritance tax, another means of redistribution of wealth, was abolished, to the advantage of the richest 10% of the population and to the significant detriment of the state treasury. Through the tax reforms adopted, the richest 20% of the population reaped the benefits of over 78% of the total tax relief (Pennacchi, 2004).

The growth in indirect taxes over recent years has increasingly eroded the principle of progressiveness in the country's fiscal system. Public administration revenue from indirect taxation rose from EUR 176 billion in 2001 to EUR 200 billion in 2005, versus practically unchanging direct tax revenues. This means that the tax burden has been distributed with no regard for the income levels of taxpayers.

Cuts in funding of local administrations

The only «effective» measure for balancing the budget - while clearly negative in terms of its social effects - has been a further cut in federal funding for local administrations. Between 2001 and 2004, local taxes increased by over EUR 11 billion, rising from 6.3% to 6.5% of GNP, mainly due to cuts implemented in the state budget. With the last Financial Act (2006), cuts in financing for local administrations have been even heavier, with a decrease of 6.7% in transfers to municipalities and of 3.8% to the country's regions. (Sbilanciamoci/Nuovo Welfare, 2006).

The tax cut policies of the Berlusconi government have had a wide range of other negative impacts on social services, including EUR 2.5 billion less for the national health system and 65% less towards applied research.

Employment and gender inequity

Despite progress over the long term since 1990, the latest Organization for Economic Co-operation and Development (OECD) reports reveal a clear slowdown in employment growth in Italy, where this growth is now less than one half of most other European countries. The employment growth rate was 0.7% in 2005 and 0.6% in 2006 and will decrease to 0.4% in 2007. The worst off are women workers, among whom the employment rate is 45.3%, as compared to an average in the OECD countries of 56.1%.

Women also earn markedly less than men do: 28.2% of female workers fall into the lowest income level, as compared with 12.3% of their male counterparts. As far as gender equity in general is concerned, the situation up until 2005 remained substantially unchanged, if

1 Tommaso Rondinella is a researcher at Lunaria in Rome and coordinator of the Sbilanciamoci campaign. Jason Nardi is a campaigner at UCODEP and coordinator of the Italian Social Watch coalition. The Italian Social Watch coalition is made up by ARCI, ACLI, Campagna Riforma Banca Mondiale, Fondazione Culturale Responsabilità Etica, Lunaria, Mani Tese, Movimondo, Sbilanciamoci, Sdebitarsi, Unimondo and UCODEP.

2 The methodology adopted by ISTAT to calculate poverty is different from the EU's: it is based on families' consumption, not on their incomes, and figures are aggregated in terms of families, not of individuals.

3 Il Sole 24 Ore, 29 May 2006.

not slightly worsened, especially with regards to women in decision-making positions (OECD, 2006).

Distorted official aid figures

When it comes to Italy's contributions to development assistance, the figures and indicators provided in official reports are not always trustworthy. An independent report released in April 2006 by CONCORD, revealed a number of anomalies in Italy's official development assistance (ODA) accounts. According to the figures reported by OECD/DAC, Italy's ODA allocations represent 0.29% of GNI. In reality, effective development aid is around 0.12%[4] (excluding USD 1.4 billion of cancelled debt and other improperly used figures), thus remaining far below the 2006 objective of 0.33% of GNI and positioning Italy as the lowest OECD contributor together with the United States.

As a result, there is an almost total lack of «fresh resources» for development programmes, especially bilateral aid initiatives. Less than one-fourth of the total amount allocated resulted in new interventions in 2005, while the rest represented debt remission.

Tied aid

The problem is not only the limited amount of resources allocated to development aid; another fundamental issue is the quality of this aid, since most of it is still tied to Italian goods and services. There are no exact figures regarding how much of Italy's development aid comes back to subsidize Italian businesses, because the Government has refused to publish these figures since 2001 (Eurodad *et al*, 2005). The difficulty in analyzing Italian development aid also derives from the fact that there is no coherent and unitary management of the funds, which is instead fragmented across various ministries. In any case, according to the latest available data, tied aid represented over 92% of Italy's total ODA in 2001 (Outterside *et al*, 2004). Nevertheless, the director-general of the Foreign Ministry's development cooperation office declared that tied aid is not a real problem, since it is in the national interest of the country to support its industries. NGOs have called on the Government to produce a coherent and transparent report on official aid spending to enable public scrutiny of aid allocations.

HIPC debt cancellation

After almost a year's delay, the previous government presented its report in Parliament on the application of Law 209/2000 on debt cancellation for HIPC countries. Unfortunately, the report says nothing new and confirms the tendency that developed over the course of the Berlusconi government of a progressive elimination of commitments in the fight against poverty and financing for development. The law has resulted in the cancellation of EUR 2.56 billion in debt for 25 HIPC countries, far less than the original goal of cancelling EUR billion in debt for 38 eligible HIPC countries over a three-year term, to have been completed by June 2004.

Nothing is said in the report with regards to the corresponding debt cancellations in favour of Nigeria and Iraq, and on the limited conversion of Indonesia's debt as a result of the 2004 tsunami. This marks a serious gap in the information presented to Parliament, since these amounts are believed to total approximately EUR 1.4 billion, practically half of the funds Italy allocates to development aid.

Priority for multilateral aid

In 2005, as in previous years, Italy confirmed its priority on multilateral channels for aid. DAC estimates for 2005 (DAC, 2006) show that of the EUR 4.065 billion allocated for ODA, EUR 2.282 billion (or 56%) have gone to multilateral channels (international financial institutions and UN agencies) and EUR 1.782 billion to bilateral aid. This priority can be explained by the fact that multilateral aid offers a «refuge» to hide the structural insufficiency of the Foreign Ministry to manage its programmes, as well as an easier way to cover cliental relations, as the procedures are more discretionary and less controlled.

At the beginning of 2006 the Italian government decided to cancel its voluntary contributions to certain UN agencies, including UNHCR, UNICEF, FAO, UNDP, UNFPA and UNRWA, for a total of EUR 52 million, approximately one half of Italy's voluntary contributions. Although voluntary, these contributions have been vital for the UN in its financial crisis. A positive note is that around EUR 885 million in multilateral aid have been allocated to refinance the HIPC initiative for the cancellation of multilateral debts owed by the poorest countries to the World Bank, IMF, African Development Fund and other institutions, while another EUR 180 million have been contributed to the Global Fund to Fight AIDS, Tuberculosis and Malaria, to cover the overdue payments for Italy's 2004 and 2005 commitments.

Recommendations

It is clear from the foregoing analysis that a radical review of Italy's fiscal and development aid policies must be urgently undertaken. They must be inspired by the principles of legality, equality, progressiveness and social justice. Socially and environmentally damaging production, consumption and behaviours must be punished. The tax burden must be lightened on work-related income and accentuated on profits and annuities. In addition, there must be an extraordinary effort to fight tax evasion.

The following proposals from the Italian civil society organisations united in the Sbilanciamoci fiscal justice campaign are intended to re-establish the principle of social solidarity as the foundation of the use of the fiscal lever.

Progressiveness. A revision of the fiscal treatment of individual citizens should be started, in order to more effectively enforce the principle of progressiveness enshrined in the Italian constitution (Article 3) by raising the highest tax rate from 43% (the current rate) to 48% for incomes higher than EUR 100,000.

Tax evasion. Many businesses in Italy, while presenting high values in their activity balance sheets, declare low or even negative profits at the same time. It is thus necessary to introduce a form of minimum tax in our legal system, similar to what happens in other countries, such as the United States.

Income. Savings in banks today are taxed 27%, while interest on bonds, capital gains and returns on individual and collective financial managements are taxed just 12.5%. This results in the creation of unjust phenomena: millions of euros earned by big stockholders or real estate speculators are in fact de-taxed. A proposal to correct this is to unify the tax rates on deposits and financial income, creating a single rate of at least 20% for all forms of financial income.

Inheritance tax. The reintroduction of the inheritance tax on the largest estates, such as those worth more than EUR one million, is a basic redistribution measure, especially since it relates to issues like unearned income and supposed «birth right».

Targeted taxes. New targeted taxes should be levied on private production and consumption activities that are harmful for the environment and society. While increasing tax revenues, such measures can also serve to redirect development and consumption towards a better quality of life. Here are some examples:

- Carbon tax. A tax on the emission of carbon dioxide could bring EUR 1.2 billion into the state coffers, which would cover the necessary resources to implement Italy's commitments under the Kyoto Protocol.
- Arms trade. A tax increase of at least 4% on the profits of defence companies that sell arms to foreign countries, with the resulting revenue allocated towards fighting poverty in developing countries.
- Firearms licences. An increase of at least 20% in the cost of firearms licences, allocating the revenue to the creation of a national fund for non-self-sufficient elderly people.
- Advertising. A 5% tax increase on profits in the advertising sector, with the double goal of reducing its intrusiveness and raising resources to devote to the school system and cultural activities for the population as a whole. Potential income from this measure is around EUR 450 million. ■

References

Centro di Ricerca Interuniversitario sullo Stato Sociale (CRISS) / Università La Sapienza (2006). Rapporto sullo stato sociale 2006, Roma: Utet.

Development Assistance Committee (DAC) (February 2006). Report 2005. <www.oecd.org/dac>.

Eurodad, Action Aid, Oxfam (2005). Joint briefing paper: "EU Heroes and Villains. Which Countries are Living up to their Promises on Aid, Trade, and Debt?"

European NGO Confederation for Relief and Development (CONCORD) (2006). "EU aid: Genuine Leadership or Misleading Figures? An Independent Analysis of European Aid Figures". <www.concordeurope.org>.

Istituto Nazionale di Statistica (ISTAT) (2005). Report on Poverty and Consumption.

Nuova Economia Nuova Società (NENS) (2006). "Family, House and Social Policies". <www.nens.it>.

OECD (2006). Report 2006. <www.OECD.org>

Outterside, K. et al (2004). An Independent Study on the Further Untying of European Aid. European Commission.

Pennacchi, L. (2004). L'eguaglianza e le tasse. Roma: Donzelli Editore.

Sbilanciamoci/Nuovo Welfare (2006). "Fiscal Justice, Income, Citizenship".

4 Though officially recognized around 0.19%, the effective ODA/GNI has been recalculated by the new government and made public on national radio by Deputy Minister of Foreign Affairs Patrizia Sentinelli (June 2006).