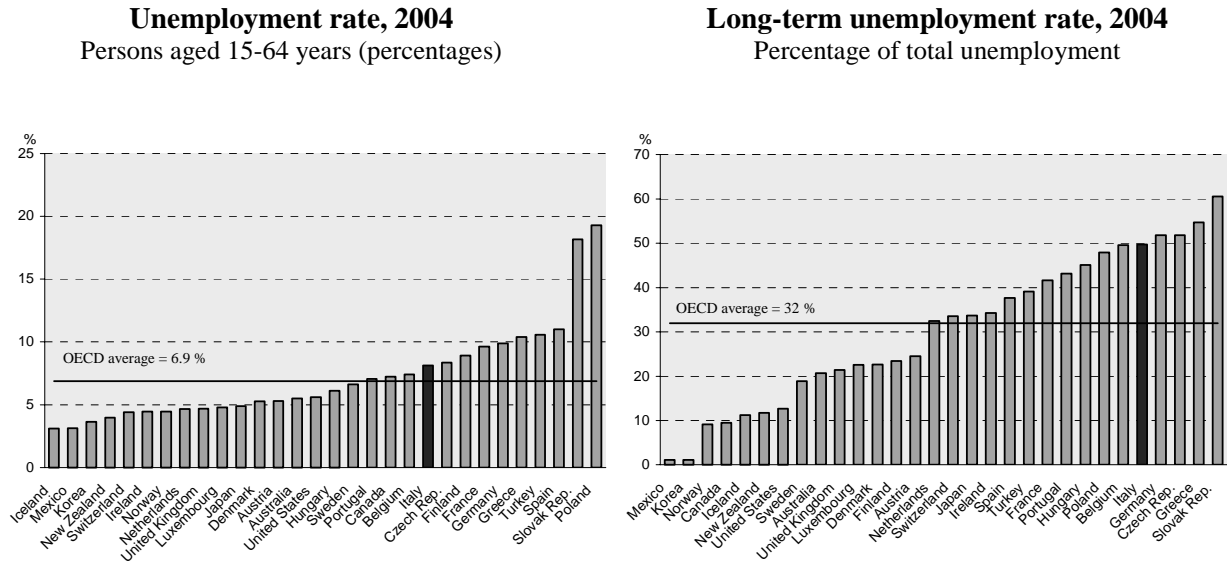


Employment Outlook 2005

How does Italy compare?

In 2004 unemployment in Italy (8.1%) stood above the OECD average. In addition, the share of unemployed individuals who have been seeking work for longer than one year is among the highest in the OECD, at about 50 per cent.



Source: OECD (2005), *Employment Outlook*, OECD, Paris

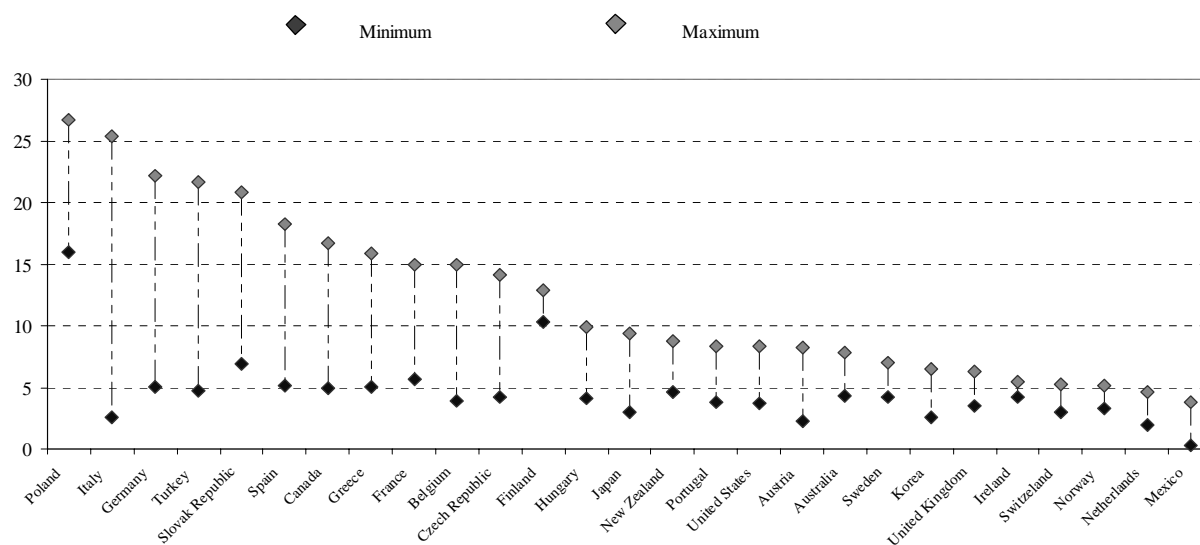
As outlined in the OECD's *Employment Outlook 2005*, this picture of above-average unemployment hides stubbornly persistent disparities in labour market performance between the Southern and Northern regions. While full employment prevails in the regions of Bolzano/Bozen-Trento (the lowest-unemployment regions, where the unemployment rate is only 2.6%), more than one quarter of the labour force is unemployed in the region of Calabria (the region hardest hit by unemployment).

Regional imbalances are not a new feature of the Italian labour market. But, strikingly, they have continued to deepen over the past decade. Regional disparities in employment outcomes are mostly driven by the capacity of regional labour markets to generate new jobs, which can be partly explained by the initial specialisation by sector of regional economies. And noticeably, whereas such regional imbalances could be expected to generate significant migration flows of workers from depressed towards booming regions, the Italian labour force is one of the least mobile in the OECD. The relatively centralised system of wage-setting, in which wages are influenced by the economic conditions prevailing in leading sectors and regions, may be one factor at work.

The persistence of high unemployment in several parts of the country calls for policies that help those who become unemployed to return to self-sufficiency through work. Indeed, as they stand, the welfare and benefit systems in Italy are neither as extensive or designed in such a way as to provide sufficient support to those seeking work. In this respect, *Employment Outlook 2005* shows that certain policies may be quite effective in helping unemployed individuals back to work.

Regional disparities in labour market performance, 2003^a

Regional unemployment rate in percentage



a) 2000 for Japan, Korea, New Zealand and Switzerland.

Source: OECD (2005), *Employment Outlook*, OECD, Paris

First, providing jobseekers with intensive counselling, job-search support and participation in re-employment programmes after a certain period of unemployment is crucial. Such “activation” policies have to be seen as the counterpart for the payment of benefits – i.e. this is a “mutual obligations” approach. Indeed, such a strategy lies at the heart of the success in reducing unemployment, and in particular long-term unemployment, in countries like Denmark, the United Kingdom and (until recently) the Netherlands. Moreover, in the absence of effective activation programmes, benefit schemes for the long-term unemployed become unsustainable or excessively costly in the long-run.

Second, it is also important to ensure that jobseekers have a financial incentive to go back to work. Generous welfare benefits tend to reduce these financial incentives, almost by definition, but it is possible to counteract this through tax-benefit reform (rather than by cutting benefit levels). In particular, the study finds that the provision of re-employment bonuses, or benefits conditional on accepting a job, can be effective. These in-work supplements have to be sufficiently large, however – i.e. small supplements do not change work incentives enough to matter, while still entailing a budget cost. They also have to be targeted on the neediest families. Well-designed targeting, as well as conditions on the number of hours worked to become eligible, are effective responses to reduce deadweight losses arising from the fact that some beneficiaries would have found a job (or increased work effort), even in the absence of the scheme.

OECD Employment Outlook 2005 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Italy, journalists are invited to contact Glenda Quintini (tel: +33 1 45 24 91 94 or e-mail: glenda.quintini@oecd.org) in the OECD’s Employment Analysis and Policy Division.