

ITALY

Since the mid-1990s, labour productivity has slowed. The employment rate has risen but remains one of the lowest in OECD.

Priorities supported by indicators

Reduce public ownership

Despite divestitures, the state still holds controlling interest or “golden shares” in key industries, notably energy, transportation and telecommunications. Most utilities at local levels remain under public ownership.

Actions taken: The state tobacco company was recently privatised, 26.6 per cent of the electricity incumbent sold, and golden shares are under review. However, the tendering obligation for public local service providers has been relaxed.

Recommendations: Accelerate privatisation of public companies. Replace golden shares in companies with arm’s length regulation to address national security concerns. Increase reliance on competition and market signals in provision of public local services.

Improve access to, and graduation from, upper-secondary and tertiary education

The share of the working-age population with at least upper-secondary education is significantly lower than the OECD average. The drop-out rate from tertiary education is especially high.

Actions taken: School reforms now underway increase compulsory schooling by 2 years and introduce a new vocational track. Central funding to universities is increasingly linked to academic performance, but teachers’ hiring is to be re-centralised.

Recommendations: At the tertiary level, rapidly implement the vocational track and relate teachers’ career advancement to their performance. Introduce a system of co-payments and loans with income-contingent re-payments. Decentralise further universities’ financing and management, and allow professional managers to run such establishments.

Reduce tax wedge on labour income

A high tax wedge on labour reflects very high pension contribution rates along with moderately progressive personal income tax rates. This inhibits employment in the formal sector.

Actions taken: Personal income taxes have been reduced across the board, both by reducing tax rates and expanding personal and family-dependant tax allowances. Around 800 000 illegal immigrants have been brought into the tax/social security net, and other tax amnesties implemented.

Recommendations: Reduce tax rates, in particular applied to lower-middle earning levels to boost employment. Strengthen tax enforcement, discontinue tax amnesties, and expand further deductions for wage costs in the business value added tax (IRAP).

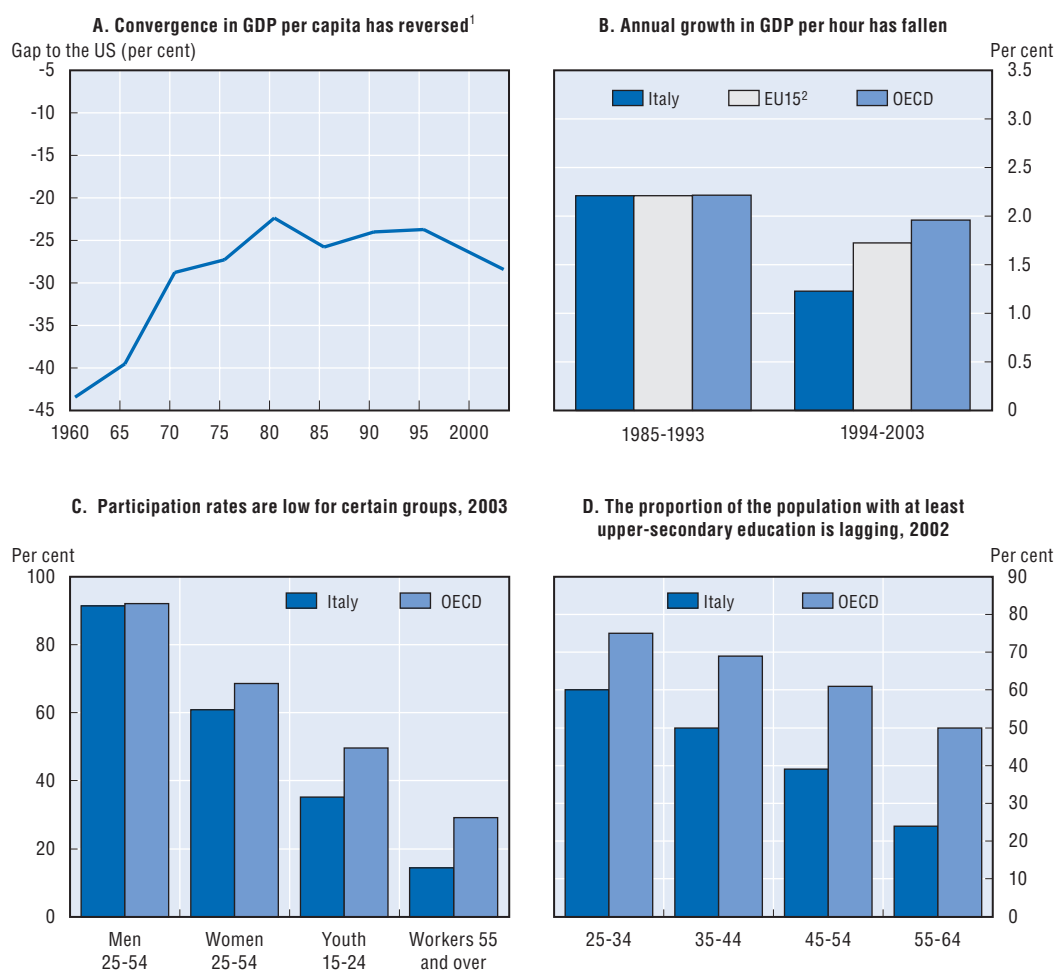
Other key priorities

- Corporate control reforms should focus on strengthening independent directors and minority shareholder rights. The bankruptcy law should be reformed by strengthening creditor rights and reducing borrower penalties in case of insolvency.
- The public sector should take a lead in decentralising wage bargaining arrangements, taking into account regional differences in both productivity and cost of living.

Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	2.5	1.2	1.3	1.3
Trend employment rate	54.7	53.3	54.2	55.8
Trend participation rate	59.5	58.9	60.2	61.5
Structural unemployment rate (NAIRU)	8.1	9.6	9.9	9.3

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

Source: Charts A and B: *National Accounts of OECD Countries, 2004*; *OECD Labour Force Statistics, 2004*; *OECD Economic Outlook, No. 76*; Chart C: *OECD Labour Force Statistics, 2004*; Chart D: *OECD Education at a Glance, 2004*.