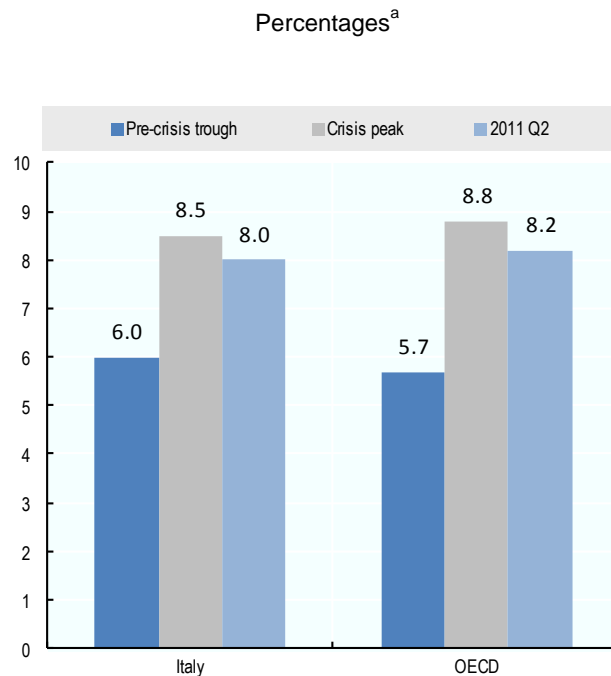




Employment Outlook 2011 – How does ITALY compare?

The impact of the recent deep recession on the Italian labour market was relatively mild, but the recovery has been slow. The Italian unemployment rate (ILO definition) rose by 2.5 percentage points between the onset of the crisis (second quarter of 2007) and the first quarter of 2010 to reach 8.5%, an increase smaller than the average rise for the OECD area (Figure 1). Since then, however, the recovery has been sluggish. The unemployment rate has fallen by only one half of a percentage point in Italy, in line with the slow decline for the OECD area as a whole. The recent faltering of the economic recovery in the Euro area suggests that Italian unemployment will remain above its pre-crisis level for some time to come.

Figure 1. Unemployment rate during the recent downturn, Italy and OECD average



a. Peaks and troughs are determined using real GDP series in levels.

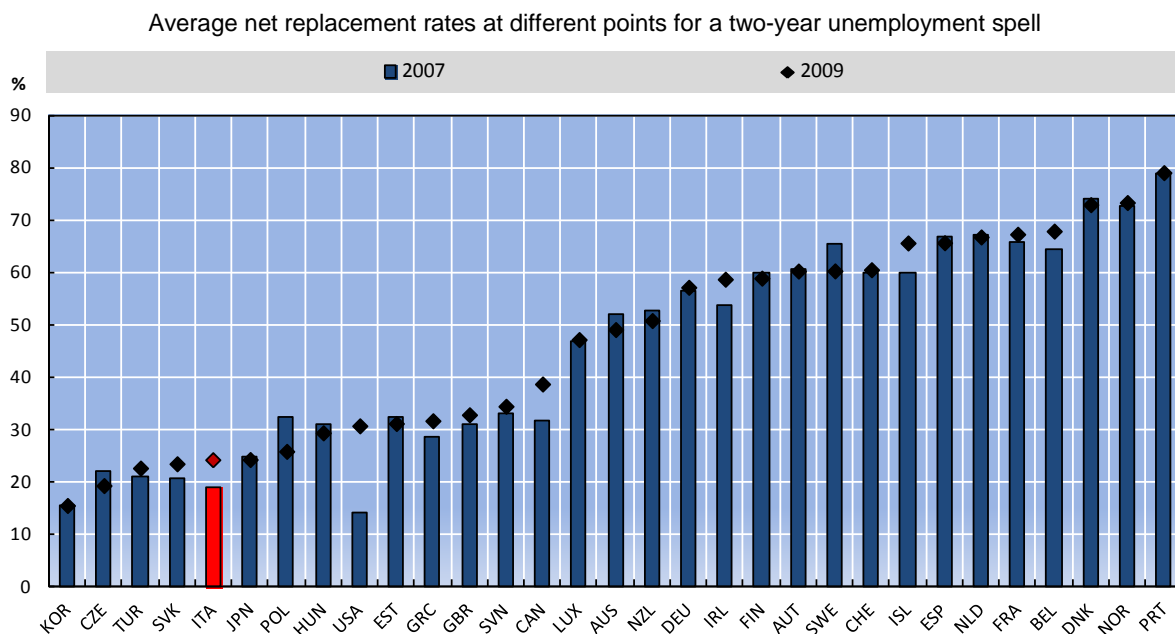
Labour market duality is on the rise. The crisis heavily affected Italian youth (aged 15 to 24), whose unemployment rate rose by 9.7 percentage points to reach 28.9% in April 2010 (seasonally adjusted). Since then, the signs of recovery are timid: the youth unemployment rate declined by only 1.3 percentage points to reach 27.6% in July 2011, one of the highest rates in the OECD. Moreover, the decline in overall unemployment appears to be entirely due to the creation of fixed-term and atypical contracts (including the *collaboratori coordinati continuativi e occasionali*) while the number of permanent jobs is still falling. In particular, in the first quarter of 2011, there were 72,000 fewer full-time permanent employees than one year before. This suggests that the Italian labour market is becoming more segmented, with more mature workers in stable, protected jobs and many young workers in more precarious jobs. The *OECD Employment Outlook* suggests that stringent employment protection legislation for permanent employees may have helped the country to contain the labour market impact of the recession but is now discouraging hiring, especially on permanent contracts, and thus hampering the recovery. Therefore, in order to promote greater job creation and reduce duality, a



reform of employment contracts should be envisaged. However, such a reform should focus mainly on reducing the uncertainty of the regulatory environment.

In Italy, the tax and transfer system plays a lesser role in buffering households against large falls in labour earnings than in other OECD countries. New evidence provided by the *OECD Employment Outlook* shows that large contractions of individual labour income (for example in the aftermath of job loss) tend to induce larger reductions of household disposable income in Italy than in other OECD countries, because of the limited cushioning role played by the tax and transfer system. For example, if individual labour income falls by 20% or more on a yearly basis, 68% of this loss is reflected into a contraction of household disposable income in Italy, against 47% on average in the other OECD countries. Thus, the negative shock on labour earnings experienced by a number of Italians during the crisis is likely to have led to an increased risk of poverty and financial stress, even though the massive upscaling of funds for the Italian short-time work scheme – the *Cassa Integrazione Guadagni* (CIG) – significantly contained the number of workers affected by such shocks. In 2009, the coverage of unemployment benefits was broadened to workers who were previously ineligible – such as those on fixed-term and atypical contracts, who are now entitled to a lump sum of 30% of income in the previous year upon registering as unemployed. However, the Italian unemployment insurance system remains one of the least generous within the OECD (Figure 2) and additional efforts should be made to provide all unemployed with adequate unemployment benefits, even if under strictly-enforced work-availability conditions, accompanied by a well-designed activation package and such as to preserve the budget balance.

Figure 2. **Impact of recent changes in the level and maximum duration of UI benefits on overall generosity**



Note: Countries are shown in ascending order of the 2009 generosity measure (i.e. the two-year average net replacement rate).

OECD Employment Outlook 2011 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Italy, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Andrea Bassanini (tel: +33 1 45 24 90 32 or e-mail: andrea.bassanini@oecd.org). For further information: www.oecd.org/els/employment/outlook.