

## ITALY

Since the mid-1990s, labour productivity has slowed and contributed to a sharp loss of competitiveness. The employment rate has risen but remains one of the lowest in the OECD.

### Policy priorities

#### **Reduce public ownership**

**Challenge and recommendations:** To increase competition and innovation, notably in network industries, it was recommended that privatisation of public companies be accelerated, that golden shares in companies be replaced with arm's length regulation and that competition in provision of public local services be promoted.

**Actions taken:** The government sold another tranche of shares in the main electricity provider (ENEL) and a 2% limit on voting rights of an individual foreign company in the electricity provider Edison was scrapped in June 2005. As of 2006, outsourcing of local public services is subject to competitive bidding. Regulated broadband access prices have been cut.

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

**Challenge and recommendations:** To raise upper-secondary graduation rates and lower-tertiary drop-out rates, it was recommended that teachers' and professors' careers be linked to performance and be exposed to more competition; that co-payments and loans with income-contingent repayments be introduced; and that financing and decision-making of universities be decentralised.

**Actions taken:** Reforms of secondary education are being implemented, albeit slowly.

#### **Reduce tax wedges on labour income**

**Challenge and recommendations:** To stimulate low-skilled employment and reduce the share of the informal sector, it was recommended that high tax rates and pension contributions, notably on low and average earnings, be reduced, that tax enforcement be strengthened and tax amnesties discontinued.

**Actions taken:** The 2006 budget entails targeted reductions in employers' social security contributions, and provides incentives to local authorities to improve tax collections.

#### **Strengthen corporate governance and financial supervision**

**Challenge and recommendations:** To correct corporate governance failures it was recommended that reforms be accelerated to strengthen independent directors and minority shareholder rights. The bankruptcy law should also be reformed, strengthening creditor rights and reducing borrower penalties in case of insolvency.

**Actions taken:** A broad reform of bankruptcy law has been approved by Parliament. Also, a new law increases transparency and accountability of firms with an enhanced role for independent directors, imposes term limits on the governor and board members of the Bank of Italy, enhances regulation of new financial products and strengthens protection of small savers.

#### **Promote decentralisation in wage bargaining**

**Challenge and recommendations:** To prevent excessive wage claims leading to loss of competitiveness, it was recommended that the public sector take a lead in decentralising wage bargaining and that regional differences in both productivity and cost of living be taken into account in wage setting.

**Actions taken:** No action.