

ITALY

Recorded labour productivity growth has been very weak in recent years, contributing to a widening GDP-per capita gap vis-à-vis best performing countries. The employment rate has risen, but remains one of the lowest in the OECD.

Priorities supported by indicators

Reduce regulatory barriers to competition

Strict regulations weaken competition pressures to innovate and increase productivity.

Actions taken: The “Bersani decree” of June 2006 liberalised many sectors – bus and other local public services; taxis, pharmaceuticals, notaries and other professional services; retail and wholesale trade; and insurance and banking – mainly via lowering of entry barriers and removal of price and quantity restrictions. It also strengthened consumer protection and the powers of antitrust authorities. Major privatisations are under preparation.

Recommendations: Accelerate divestiture programmes, replace golden shares in companies with arm’s length regulation, and further strengthen regulators and the antitrust authority. The Bersani reforms as well as the planned reforms of local government services and network industries should be fully implemented. Remove statutory and official authorisations that prevent the antitrust authorities from tackling the anti-competitive powers of professional associations.

Improve access to, and graduation from tertiary education

Tertiary graduation rates are relatively low and drop-out rates high, despite high spending per student. Poor university teaching and research quality hamper innovation.

Actions taken: No action has taken place at the tertiary level.

Recommendations: Link teachers’ careers to performance, introduce student co-payments and loans with income-contingent repayments, decentralise financing and management of universities, and increase international teacher and student exchanges.

Reduce tax wedge on labour income

A high tax wedge on labour incomes discourages employment of the low-skilled, especially in formal activities.

Actions taken: The second phase of income tax cuts was implemented. The 2007 Budget includes a cut in the labour tax wedge targeted to low-skilled workers and poorer regions.

Recommendations: Reduce high tax rates and pension contributions, notably on low- and middle-earnings, financed by lowering tax expenditures, strengthening tax enforcement and terminating tax amnesties.

Other key priorities

- Improve the framework for risk taking by further correcting failures in the structure of corporate governance, fully implementing the 2006 financial market supervision reform, as well as the 2005 bankruptcy reform.
- To strengthen labour utilisation, promote economy-wide decentralisation in wage bargaining, notably by taking regional differences in productivity and cost of living into account in public-sector wage-setting.