

ITALY

The income gap vis-à-vis the best performing countries continues to widen, in particular due to weak productivity growth. Labour utilisation remains low, especially among youth, the elderly and women, and in southern Italy. There have been significant product market reforms in recent years, but more progress remains to be made, especially in the following areas.

Priorities supported by indicators

Reduce public ownership and regulatory barriers to competition

High levels of public ownership and constraining regulation in professional services and transport hamper productivity growth.

Actions taken: The second package of the 2007 structural reform reduced regulatory barriers in retail trade, retail banking, insurance and professional services. A proposed law to privatise local public service providers did not complete the parliamentary process. The 2009 budget law contains plans to continue deregulation and privatisation.

Recommendations: Eliminate entry barriers to professional services, and abolish price ceilings on such services set by professional organisations. Reduce state ownership and involvement in business activities in electricity, gas, post and transport, and limit local government involvement in enterprises that provide local services.

Improve educational outcomes

Tertiary education attainment is low compared with the OECD average. High drop-out rates from tertiary studies seriously reduce the supply of human capital and waste resources in higher-education establishments.

Actions taken: A law was adopted in August 2008 that allows public universities to take the status of private foundations. A law passed in January 2009 is intended to increase the share of output-based funding but details of implementation have yet to be fixed.

Recommendations: Increase the amount of private financial investment in tertiary education through higher tuition fees and private sector financing, to increase the supply (quality and quantity) of university places and reduce drop-out rates; introduce student loans with income-contingent repayment.

Reduce the tax wedge on labour income

The tax wedge, especially for low-skilled workers, remains high and depresses labour utilisation.

Actions taken: The 2008 budget included a one-off lump sum payment for low-income earners; in May 2008 taxation on earnings from overtime work and local productivity-related pay increases for low-paid workers was cut. A 2008 White Paper on tax reform discusses various measures including lower marginal tax rates, a switch to joint taxation of couples, a negative income tax or in-work benefit and streamlining and simplification of the current tax system. No action has yet been taken on this.

Recommendations: Marginal tax rates should be decreased, especially for low-income groups, without introducing excessive complexity, financed by reduced public expenditures and strengthened tax enforcement. Since joint taxation is detrimental to women's labour force participation, already among the lowest in the OECD, separate taxation of couples should be maintained.

Other key priorities

- **Wage bargaining.** To reduce regional disparities in labour utilisation, promote decentralisation in wage bargaining, starting with differentiating wages in the public sector, so as to take into account regional differences in productivity and the cost of living.
- **Innovation incentives.** To foster innovation and growth, consider increasing the current low rate of R&D expenditure through careful use of tax incentives, in addition to strengthening competition in product markets. Promote research partnerships between industry and universities. Make recruitment procedures for researchers more transparent.

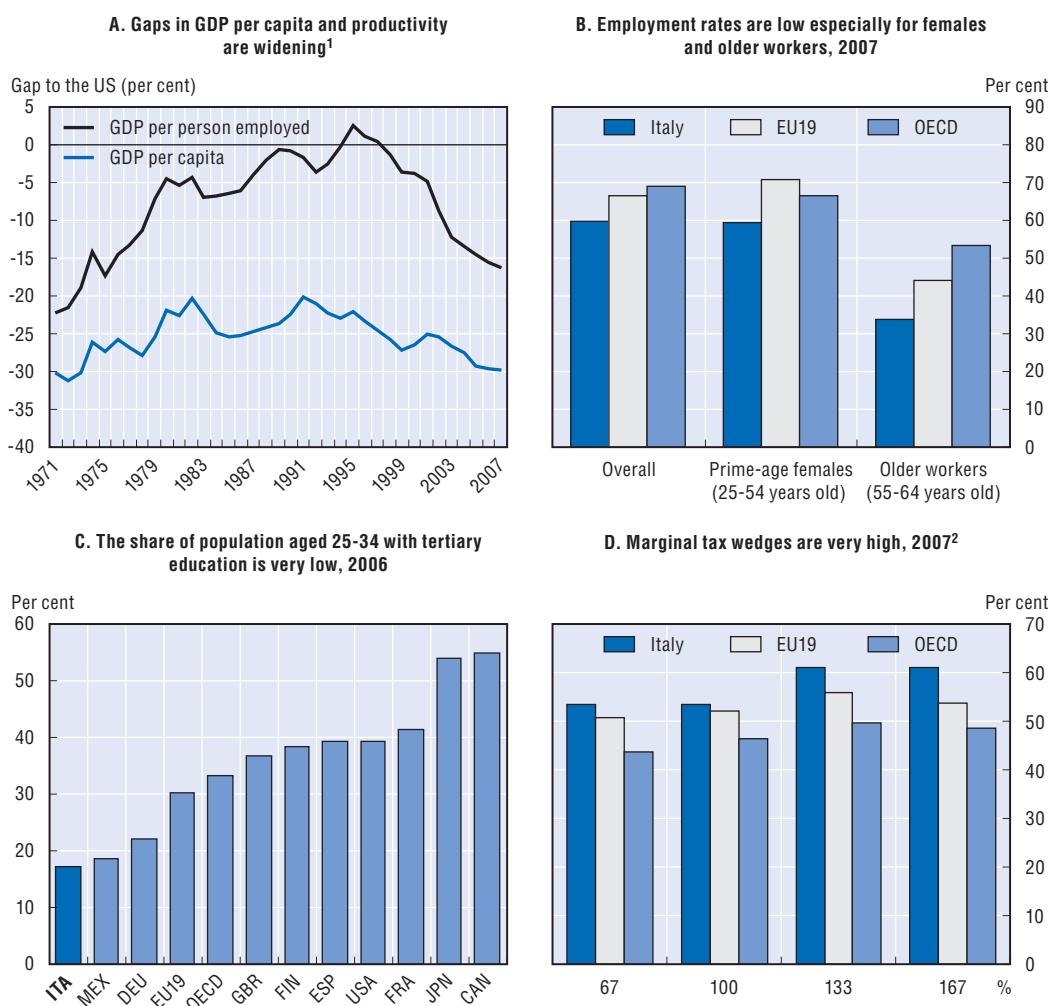
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Structural indicators

Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	0.9	1.2	0.5
Labour utilisation	0.4	0.4	0.3
of which: Employment rate	0.7	0.7	0.6
Average hours	-0.3	-0.3	-0.3
Labour productivity	0.5	0.7	0.3
of which: Capital intensity	0.7	0.8	0.7
Multifactor productivity	-0.2	-0.1	-0.4


Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.



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

2. Evaluated at 67%, 100%, 133% and 167% of average earnings.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD (2008), Education at a Glance; Chart D: OECD, Taxing Wages Database.

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