Employment Outlook 2009 – How does ITALY compare?

Despite signs that the recession is slowing in Italy as well as in other OECD countries, the ***OECD Employment Outlook 2009*** **indicates worsening labour market conditions**. Indeed, numerous headwinds imply that the pace of the recovery is likely to be modest for some time to come and unemployment is likely to rise further even after output growth has resumed. As a result, the Italian unemployment rate is expected to continue rising going forward; it could even approach a double-digit figure in 2010 if the recovery fails to gain momentum.

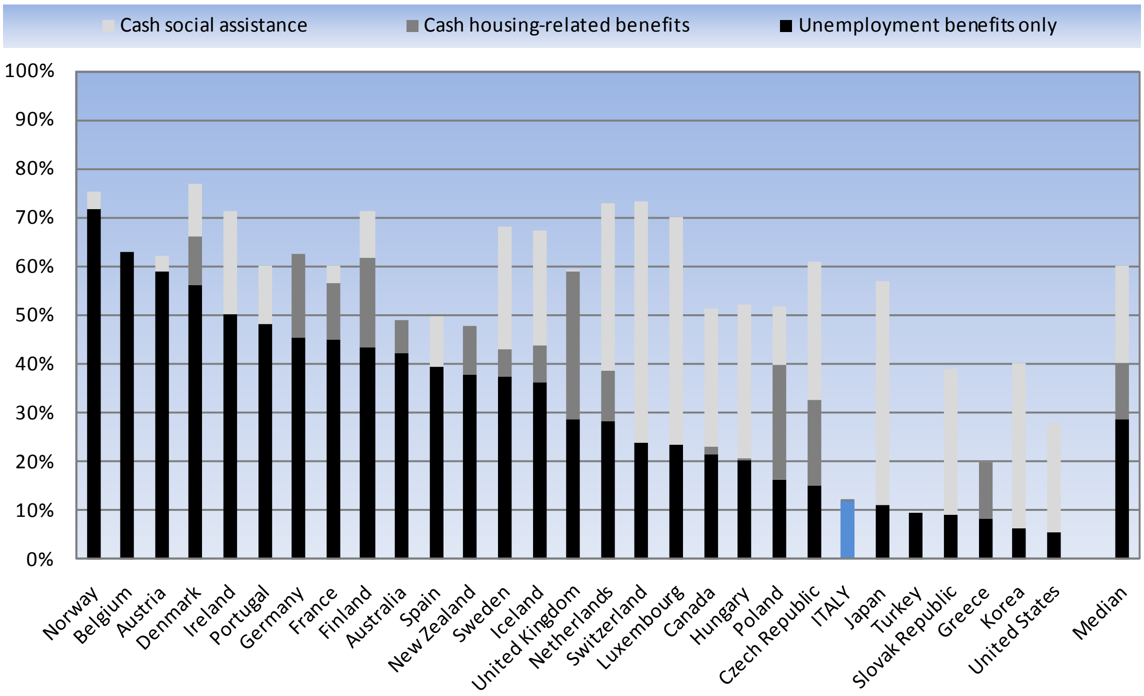
The impact of the crisis on the labour market has been so far milder in Italy compared to a number of other OECD countries. In Italy, the unemployment rate reached 7.4% in March 2009, an increase of 0.8 percentage points compared to one year before. Preliminary estimates for the second quarter suggest a significant further increase. However, the unemployment rate could have risen even further if a number of workers had not stepped back from the labour market (the participation rate has, in fact, fallen by 0.4 percentage points in one year, especially in the southern part of the country). As a result the percentage of working age population with a job, which was already the third lowest among OECD countries after Turkey and Hungary, slumped by 0.9 percentage points and it is now at 57.4%.

Youth and temporary workers are particularly hit by the crisis. As in many other countries, workers without permanent contracts are bearing the greatest burden of employment adjustment. In the year before March 2009, Italy lost 261,000 temporary and atypical jobs (including the *collaboratori coordinati e continuativi e occasionali*), which alone more than accounts for the whole employment contraction. Moreover, young workers, who typically hold these types of contracts, are particularly hard hit. The 15-24 year-old unemployment rate rose by 5 percentage points in Italy in the last year and it is now at 26.3%. Similar patterns are seen in other advanced economies, where workforce groups who were already relatively disadvantaged when the economy was growing are also bearing most of the brunt of employment retrenchments during the recession. But the performance of the Italian youth labour market remains particularly weak when compared with other OECD countries: *i)* the youth unemployment rate was already much higher than the OECD average even before the global economic crisis, although it had fallen significantly over the decade preceding the crisis; *ii)* the proportion of youth in employment is 20 percentage points below the OECD average; *iii)* Italy has one of the highest NEET (neither in education nor in employment) rates in the OECD and NEET status is very persistent; and *iv)* the transition from school to work takes much longer in Italy than in most other OECD countries and it is often very bumpy, with youth cycling from unemployment to temporary jobs and back to unemployment.

Spending in labour market policies has increased little in comparison with other countries. The *OECD Employment Outlook* notices that most OECD governments have responded to the crisis with vigorous macroeconomic measures, including sometimes very large fiscal stimulus packages. Greater resources have also been made available for labour market and social policies to cushion the negative effects of the crisis on workers and low-income households. In countries with sizeable automatic stabilisers, such as the Nordic countries and other large continental European countries, spending on labour market policies (such as unemployment benefits or activation programmes) has increased significantly as job losses mounted. In most other countries, such as the United States and the United Kingdom, governments have moved promptly to scale up resources in support of the labour market. In Italy, the increase in discretionary spending for the labour market has remained rather moderate, the fiscal situation somewhat limiting the room for manoeuvre during the downturn. In particular, the government's action has focussed mainly on sustaining labour demand by providing additional funds for the *Cassa Integrazione Guadagni* (CIG). However, CIG still has a limited coverage of firms and workers – although efforts have been made to extend it. Some action has also been taken to increase coverage and duration of unemployment benefits both in 2008 and 2009 but the introduction of a general scheme has not been considered so far, resulting in important segments of the population remaining with limited safety net to help them weather the storm. The severe economic downturn is expected to bring in its train high and persistent unemployment and in Italy many of the long-term unemployed are likely to face severe hardship. Even before the crisis erupted, Italy already had almost half of the unemployed without a job for at least 12 months, twice as much as in the whole OECD area. And many of them have access to only a limited safety net (see graph).

The recession is also likely to exacerbate poverty. The *OECD Employment Outlook* shows that, even before the current economic recession, 11% of individuals living in a household with working-age head were relatively poor in Italy (their disposable income was less than 50% the median income), a figure above the OECD average. More important, more than 14% of the households with children and working-age head were poor, the fifth worse performance in the OECD, after Mexico, Poland, the United States and Spain. Insofar as these figures are by and large due to the high incidence of jobless households in Italy, poverty is likely to increase significantly as a result of the current recession. Indeed, 36% of households are poor in Italy. Nevertheless, at 8.2%, in-work poverty (that is, poverty among households with at least one job) is also above the OECD average, due to a system of net social transfers that is not very favourable to low-income workers. Along with scaling up assistance for the unemployed, the OECD report advises that governments may also need to reinforce income support for low-income households and low-income workers for the duration of the recession.

Average net replacement rates over a 5-year unemployment spell, before the onset of the recession



Note: Preliminary estimates for 2008 for Italy, 2007 actual rates for all other countries. The 2007 actual rates for Italy were 7.4% for unemployment benefits only, 0.1% for housing-related benefits and 0% for cash social assistance. Countries are ranked by unemployment benefits only.
Source: *OECD Employment Outlook 2009*.

OECD Employment Outlook 2009 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), Head of the OECD Employment Analysis and Policy Division.