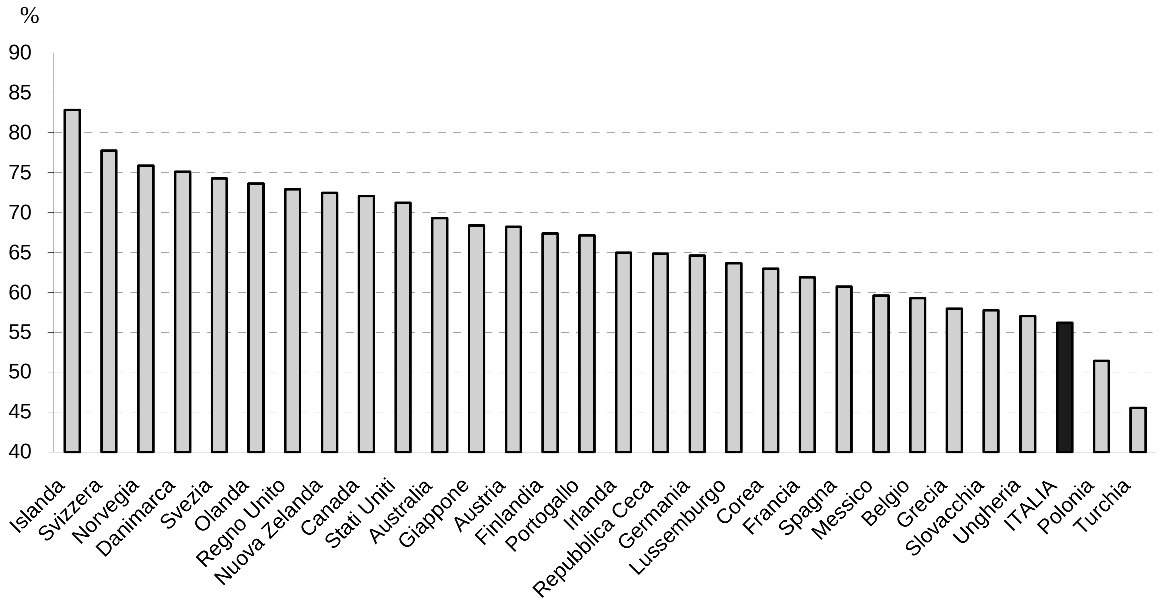
OECD Employment Outlook 2004

How does Italy compare?

In the last five years, the Italian employment rate has grown by 3.3 percentage points, which is the third best performance over the period among OECD countries, after Spain and Korea. Still, there is a long way to go before Italy catches up to the best OECD performing countries in terms of employment

The OECD's latest review of labour market trends and issues, *OECD Employment Outlook 2004,* shows that in 2003 the unemployment rate, at 8.6%, remained well above the OECD average of 7.1%. Only 56% of people of working age in Italy actually have a job — the third worst performance of OECD countries — compared with over 70% in the best performing countries like Canada, the Netherlands, Denmark, Sweden, the US and the UK. The employment rate is especially low among young people, women and older workers.

Grafico **Tasso di occupazione, 2003**
Proporzione di occupati nella popolazione di età compresa tra i 15 e i 64 anni



Fonte: OECD Employment Outlook 2004.

In addition, employment growth over the last decade has been essentially due to the rise in the number of people on temporary contracts, which has increased by more than the fall in the number of workers with permanent contracts, who enjoy a relatively high degree of legal protection.

Reforms in the labour market might have increased job precariousness for youth and the low skilled

A ranking of the strictness of employment protection legislation across OECD countries in 2003 places Italy roughly in the middle of the spectrum, slightly below the average OECD level. Protection against unfair dismissals is strong, with large sums payable to workers in compensation for being unfairly laid off. In addition, trial periods during which workers can be fired without much difficulty are rather short. When dismissals involve several workers, procedural inconveniences increase and a social plan and extra severance payments become necessary.

Legislation protecting permanent workers against individual or collective dismissals has not changed in the last two decades. By contrast, several reforms over the 1990s have relaxed regulations for temporary forms of employment. These changes have aimed at widening the use of both fixed-term contracts and temporary work agencies. Italy is still far from facing a problem of excessive share of temporary work in employment growth. But easing employment protection for temporary forms of employment without reforms in the legislation governing permanent work risks producing the same type of labour market duality observed in some other OECD countries, notably Spain but also Germany, Japan and Korea. There is evidence to suggest that *differences in the strictness of EPL for regular and temporary jobs may be an important element in the rise in the incidence of temporary work among young people and the low skilled* (this is less the case for other groups, notably prime-age men). Excessive use of temporary work arrangements may affect career progression and productivity: temporary forms of employment are typically characterised by weak job attachments and limited opportunities for upgrading human capital.

Many workers are still undeclared

The Italian labour market is also severely affected by another form of duality between declared workers with full social protection rights, and undeclared workers without such rights. Bringing the underground economy into daylight would allow the development of a more equal labour market. It would also result in a larger tax base, increasing the resources available for packages to accompany labour market reforms. Actual social security receipts fall short of the theoretical tax liability, estimated on the basis of national accounts, by about 20%, approximately the same figure as in Turkey and half the level of Mexico but far above most other OECD countries. In the case of income taxes, evasion is likely to be even greater. This could be corrected by improvements in enforcement procedures and modifications in the tax system, which at present sets high marginal rates of social security contributions coupled with relatively low corporate tax rates on distributed profits, thereby providing an incentive to paying employees out of profits in cash.

OECD Employment Outlook 2004 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Italy, journalists are invited to contact Andrea Bassanini (tel: +33 1 45 24 90 32 or e-mail: andrea.bassanini@oecd.org) or Glenda Quintini (tel: +33 1 45 24 91 94 or e-mail: glenda.quintini@oecd.org) from the OECD Employment Analysis and Policy Division.