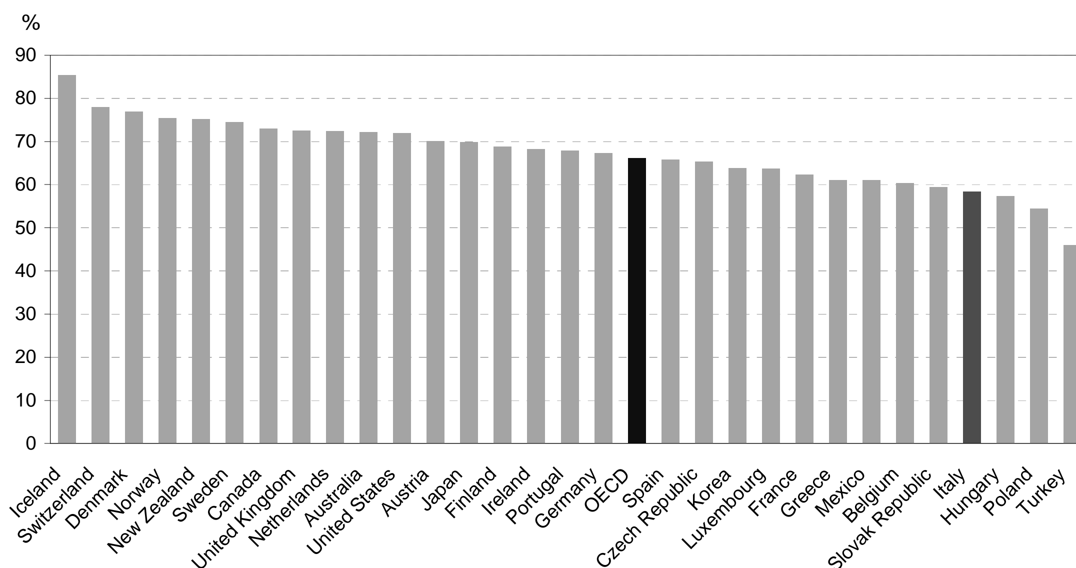
Employment Outlook 2007 -- How does Italy compare?

The Italian labour market shows signs of recovery. The *OECD Employment Outlook 2007* shows that Italy has created almost 500,000 new jobs in 2006. This corresponds to an increase of 2.2%, higher than EU-15 and OECD averages (1.5% and 1.6%, respectively) during the same year. The standardised unemployment rate, now at 6.8%, has fallen steadily since 1998, when it was 11.4%. The relative position of Italy in the OECD has improved considerably. The unemployment rate in Italy is now 0.6 percentage points below the EU-15 average and only 0.8 percentage points above the OECD average.

However, the employment rate remains one of the lowest in the OECD. Less than 59% of people of working age have a job, compared with over 70% in the best performing OECD countries like Canada, Denmark, the Netherlands, Sweden, Switzerland, and the UK (see Figure 1). The employment rate is very low among women – at about 46% Italy is the worst OECD performer after Mexico and Turkey.

Figure 1. Proportion of people of working age who are employed, 2006

Employment as a percent of population aged 15-64



Source: OECD Employment Outlook 2007.

Youth unemployment also remains an issue. The unemployment rate among youth aged 15 to 24 years remains very high at 21.6% – although it declined by almost 10 percentage points over the past decade. The report shows that only France, Greece, Poland and the Slovak Republic do worse than Italy in this respect.

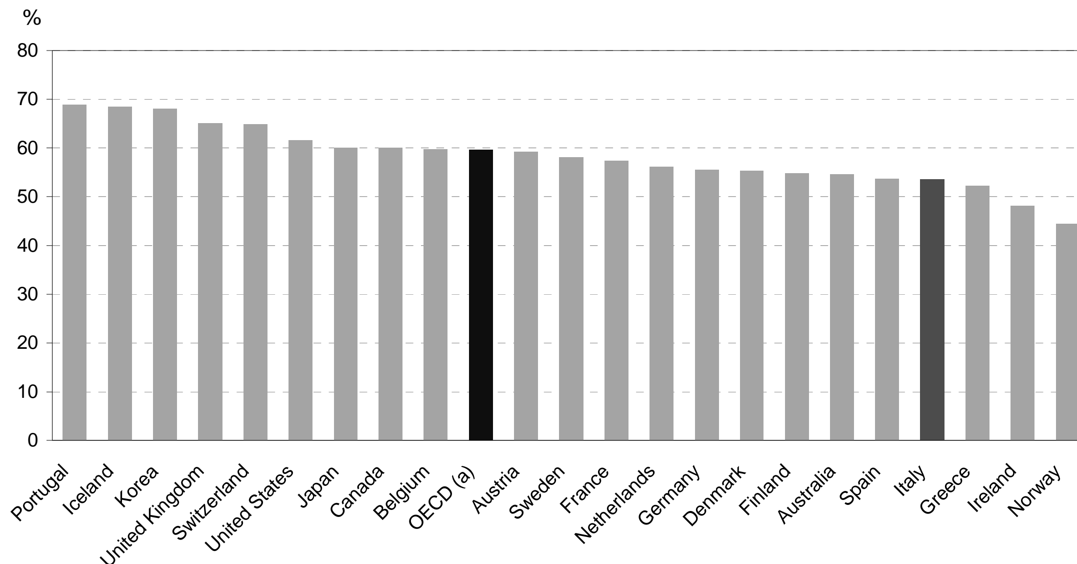
Labour productivity growth over the past decade has been disappointing. Italy's labour productivity, corrected for the business cycle, grew at the rate of 1.2% per year between 1995 and 2005, much lower than in the OECD as a whole. Although it is too early to say, the recent employment improvement could result in further compression of measured labour productivity. In fact, as the employment rate grows, relatively more low-skilled workers tend to be employed, reducing average labour productivity growth, even if the productivity growth of already employed workers remains unchanged. Empirical evidence contained in the Employment Outlook 2007 suggests that *economic growth can be strengthened if policy interventions in the labour market include reforms that boost labour productivity.* These include developing family-friendly policies that increase work attachment, such as provision of

child-care facilities, and reforming badly-designed layoff regulations for permanent contracts. Expanding supply of child-care facilities would provide greater incentives to invest in women's competences, subsequently allowing capitalising on accumulated skills. Reforms of layoff regulations, by encouraging hirings in emerging, high productivity firms, industries or activities, would make it easier to move labour resources into them. Conversely, there is no evidence that the increasing use of atypical labour contracts has had beneficial effects on Italy's productivity growth, the report says.

The financing of social protection relies excessively on labour taxes. At 24 percent of GDP in 2003, public social expenditure was 3 percentage points above the OECD average, the report says. Pension accounts for a particularly important share of total social expenditure compared with other OECD countries (57 percent against an average 37 percent). More than half of public social expenditure was financed out of social contributions. Taxes on labour are relatively high, representing 47 percent of total labour costs in 2003, against 40 percent in the OECD on average. The reform of the pension system has increased the link between what employees contribute and the benefits they can expect. However, the report argues that given the rapid ageing of the Italian population, *increasing the share of general taxation and reducing reliance on labour taxes in the financing of social expenditures would prove to be particularly important* for two reasons: first it will help reduce the negative impact of labour taxes on employment; and second it will allow a more solid tax base to finance the expenditures. In fact, labour income represents a relatively small share of total income: the labour share in national GDP, at 53.5%, is the lowest among G7 countries and the third lowest in the EU-15 (see Figure 2). Therefore, to avoid an excessive tax burden on labour, other sources of revenues must be found to finance social expenditures.

Figure 2. Wage share of national income, 2006

Share of total wages and salaries in total value added, percentage



a) Weighted-average of countries shown

Source: OECD Employment Outlook 2007.

OECD Employment Outlook 2007 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) from the OECD Employment Analysis and Policy Division.