OECD Employment Outlook 2012

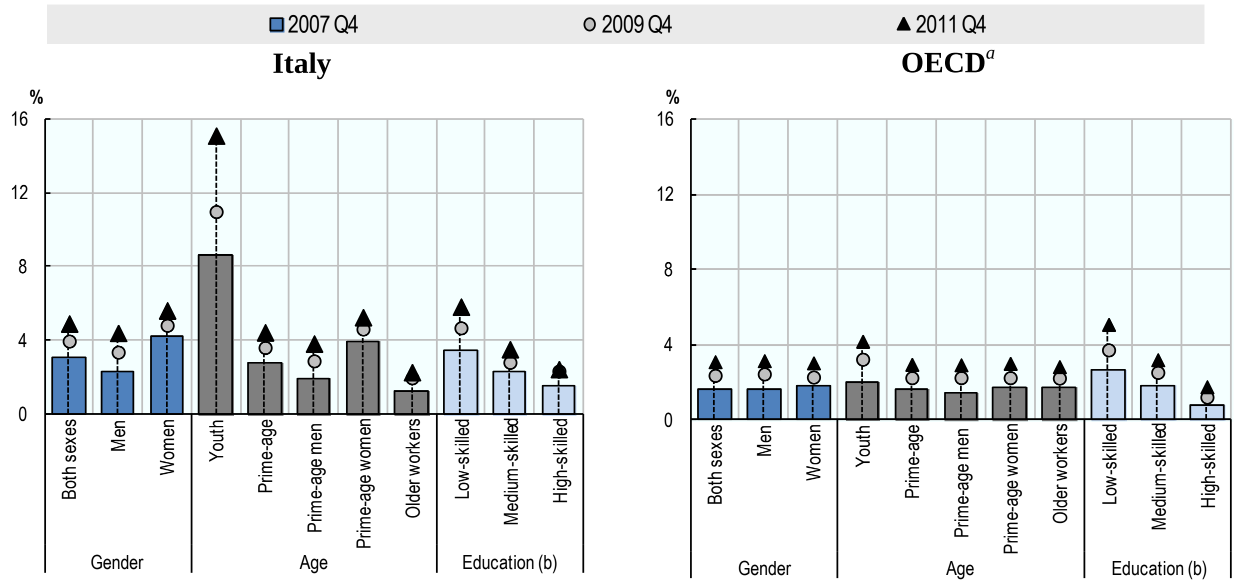
How does Italy compare?

Italy has been hit hard by the crisis and unemployment may rise further. The recent recession hit the Italian economy hard with the country experiencing a large fall in GDP at the height of the crisis in 2009. In addition, after a weak economic recovery, the Italian GDP is projected to fall again in 2012 and to remain just stable in 2013 according to the OECD's May 2012 forecasts. As a result, following some easing early in 2011, the unemployment rate rose over the past three quarters to just over 10% in May and is projected to rise further in 2013.

The cost of the crisis in terms of joblessness has not been evenly spread. Job losses have been concentrated among youth and the low skilled. And the rate of long-term unemployment, an indicator of severe labour market distress, has risen very sharply for youth and, to a much lesser extent, for the low-skilled and prime-age men, while it has remained stable for women and skilled workers. Compared to the OECD average, the increase in the long-term unemployment rate was more marked in Italy and less evenly distributed across socio-demographic groups (see Figure below). A number of factors explain why youth have borne the brunt of the crisis. First, youth entering the labour market for the first time lack experience and this hampers their likelihood of quickly finding work, particularly in the context of a major crisis. Second, Italian youth are over-represented in precarious jobs – notably temporary jobs and other atypical contract types – and, as a result, have been the first to lose their jobs as the economic outlook deteriorated.

The cost of the crisis was borne disproportionately by Italian youth

Long-term unemployment rates as a percentage of labour force by demographic group, 2007 Q4-2011 Q4



a) OECD is a weighted average of 30 countries (excluding Australia, Chile, Korea and New Zealand) for data by age and gender and 29 countries (the same countries except Japan) for data by education.

b) Statistics by education refer to persons aged 25-64.

Source: OECD estimates based on *OECD Main Economic Indicators, OECD Labour Force Statistics Databases* and national labour force surveys.

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A comprehensive labour market reform was approved by the Italian Parliament in June 2012. It is an important step given the long-standing imbalances characterising the Italian labour market, including the persistently low participation rates of women, high unemployment rates, especially among youth, and a high degree of labour market segmentation among those in employment. In particular, it attempts to rebalance the use of different contractual arrangements by: *i)* extending the cooling-off period between two fixed-term contracts; *ii)* reducing the fiscal incentive for some types of non-permanent contracts; and *iii)* introducing tests to re-classify independent contractors as employees. If fully and immediately enforced, these measures have the potential to reduce significantly labour market segmentation.

The recent labour market reform is likely to reduce the social cost of future downturns and rising unemployment. First, as suggested in Chapter 2 of the OECD *Employment Outlook* 2012, the reduction in the incidence of temporary work and other atypical and precarious contractual arrangements likely to result from the reform should make the Italian labour market more resilient to future economic downturns, resulting in more limited social costs. Second, the reform will help to limit the social costs of rising unemployment through the extension of the pool of workers eligible to standard unemployment benefits and the moderate increase in benefit generosity – a reform which the OECD has urged Italy to undertake for many years. OECD estimates of the impact of the new changes suggest that the net average replacement rate over the first two years of the unemployment spell, will increase significantly from the present low basis. This is a good first step but will need to be complemented by an effective activation strategy built upon a clearer division of responsibilities between the central government and regional authorities, informed by the mutual obligation principle by which workers actively look for work or participate in training in exchange for benefit payments and subject to moderate sanctions for non compliance.

OECD Employment Outlook 2012 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; e-mail: stefano.scarpetta@oecd.org). For further information: http://www.oecd.org/employment/outlook.