

## ITALY

*Labour productivity growth has been weak, contributing to a widening GDP-per-capita gap vis-à-vis best performing countries. The employment rate has risen, but remains one of the lowest in the OECD.*

### Policy priorities

#### **Reduce regulatory barriers to competition**

**Challenge and recommendations:** To increase productivity, it was recommended that: divestiture programmes be accelerated in public utilities, transportation and media; golden shares be replaced with arm's length regulation; and regulators be strengthened further. It was also recommended that the planned liberalisation of market and local government services be fully implemented, and statutory and official authorisations giving anti-competitive powers to professional associations be removed.

**Actions taken:** Two major liberalisation packages have been passed in the areas of professional services, pharmaceuticals, taxis, local public services, retail trade and banking. These should help to reduce entry barriers, cut bureaucratic red tape, expand consumer choice, strengthen consumer protection, and diminish rents in sheltered sectors. A financial market supervision reform has streamlined the regulatory authorities and passed to the Competition Authority the power to deter anti-competitive practices in the banking sector. The powers of the Competition Authority and sectoral regulators have been strengthened.

#### **Improve access to, and graduation from, tertiary education**

**Challenge and recommendations:** To boost tertiary graduation rates and improve university teaching and research quality, it was recommended that teachers' careers be linked to performance, student co-payments and loans with income-contingent repayments be introduced, financing and management of universities be decentralised, and international teacher and student exchanges be increased.

**Actions taken:** No significant action taken, though a government Green Paper recognises the need to improve spending efficiency in higher education.

#### **Reduce the tax wedge on labour income**

**Challenge and recommendations:** To encourage formal employment of the low-skilled, it was recommended that high tax rates and pension contributions, notably on low and middle-earners, be reduced, and that such reductions be financed by lowering tax expenditures, strengthening tax enforcement and accelerating pension reforms.

**Actions taken:** The 2008 Budget reinforced measures in the 2007 Budget that included a cut in the labour tax wedge targeted on low-skilled workers and poorer regions. Measures to counter tax evasion have been stepped up, with the ultimate savings used for tax cuts and to maintain spending growth.

#### **Improve the framework for risk taking**

**Challenge and recommendations:** To encourage innovation and restructuring, it was recommended that the corporate governance framework be further improved, and the 2005 bankruptcy reform be fully implemented and extended to small companies.

**Actions taken:** Since the introduction of the 2005 bankruptcy reform for medium and large companies, new codes have been enacted to improve minority shareholders' rights and financial-market transparency.

#### **Make wage setting more flexible**

**Challenge and recommendations:** To reduce marked regional disparities in labour utilisation, it was recommended that economy-wide decentralisation in wage bargaining be promoted, notably by taking regional differences in productivity and cost of living into account in public sector wage-setting.

**Actions taken:** No action taken.