How does ITALY compare?
July 2013

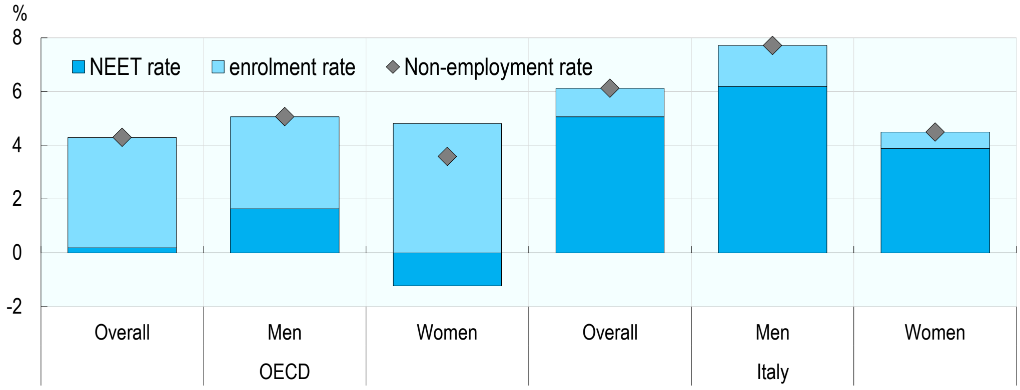
OECD Employment Outlook 2013

The OECD Employment Outlook 2013 *looks at labour markets in the wake of the crisis. It includes chapters on the experience of different labour market groups since 2007; employment protection legislation; benefit systems, employment and training programmes and services; and re-employment, earnings and skills after job loss. As always, it includes an extensive statistical annex.*

For further information: www.oecd.org/employment/outlook
DOI : [10.1787/empl_outlook-2013-en](http://dx.doi.org/10.1787/empl_outlook-2013-en)

Changes in youth joblessness rates since the onset of the crisis: Italy vs. OECD average

Percentage-points change of the number of youth aged 15-24 in a given labour market status as a share of the young population, Q4 2007-Q4 2012



a) OECD is the weighted average of 28 OECD countries (excluding Australia, Chile, Israel, Japan, Korea and New Zealand)
Source: OECD calculations based on national labour force surveys.

The Italian economy remains stuck in recession and unemployment may rise further

According to the OECD's May 2013 projections, Italy's recession will continue throughout 2013 and the Italian economy is expected to renew with a timid growth only in 2014. As a result, the unemployment rate has risen almost steadily over the past two years to reach 12.2% in May 2013. The relative performance of the country has worsened with respect to other European Union countries: while the Italian unemployment rate was level with the EU average until a year ago, it is now more than 1 percentage point higher.

Youth have been hit hardest by the ongoing recession

Joblessness has been concentrated among youth and the low skilled everywhere in OECD countries. The 2013 *OECD Employment Outlook* shows that the proportion of those aged between 15 and 24 years not working has increased by 4.3 percentage points in the OECD area between the last quarter of 2007 and the last quarter of 2012 (see the figure above). But, over the same period, the rise was even faster in Italy (6.1 percentage points). More worrisome, this trend is essentially accounted for by an increase in the number of young people Not in Employment or in Education and Training (NEET). The proportion of youth in this category increased by 5.1 percentage points to reach 21.4% at the end of 2012, the third highest share in the OECD after Greece and Turkey. This makes a striking contrast with the experience of most other OECD countries, where many youth responded to poor employment prospects by delaying entry into the labour market and investing more in education (as reflected in a stable NEET rate, on average). For Italian NEET youth, there is a growing risk of long-term scarring effects – that is of suffering a permanent reduction in their employability and earnings capacity. Moreover, they are likely to fall behind their counterparts in other countries who, by substituting education for labour market experience, are likely to come out of the crisis better equipped to face future technological challenges.

A number of factors explain why youth have borne the brunt of the adjustment

First, youth entering the labour market for the first time lack experience and this hampers their likelihood of quickly finding work, particularly when competition for the few available job vacancies is high. Second, as discussed in the *OECD Employment Outlook*, the growth in the share of precarious jobs in Italy during the fifteen years preceding the crisis – notably temporary jobs and other atypical contracts – was one of the most rapid among OECD countries. This was partly due to fiscal and regulatory incentives that were introduced in the late 1990s and early 2000s which encouraged a concentration in hiring on these contracts. As Italian youth are over-represented in these contracts, their jobs were among the first to be destroyed as the economic outlook deteriorated.

The 2012 labour market reform is likely to raise job creation in stable jobs in the medium-run

As documented in the *OECD Employment Outlook*, about one-third of OECD countries undertook reforms in the past five years to improve the adaptability and reduce the dualism of their labour markets. In contrast with the previous fifteen years, where greater adaptability was obtained mainly by liberalising temporary contracts, these more recent reforms were concentrated on dismissal regulations, thereby increasing incentives for employers to hire workers on open-ended contracts. Reform activity in this area was particularly intense in those countries with the most restrictive legislations at the onset of the economic crisis (including Italy as well as Portugal, Greece, Spain, Slovenia and Slovakia). The reform 92/2012 of July 2012, by limiting the unfair dismissal cases in which reinstatement can be ordered by courts and making the dispute-resolution procedures quicker and more predictable, can be expected to improve productivity growth and job creation in the future. Indeed, the evidence summarized in the report suggests that limiting the extent of reinstatement is key to enhance worker flows and productivity growth. Nonetheless, Italy remains one of the OECD countries with the strictest legislation on dismissal, in particular as regards monetary compensation in the case of unfair dismissal and the restrictive definition of fair dismissal adopted by courts.

A careful balance should be found between promoting job creation in the short run and tackling labour market dualism

The *OECD Employment Outlook* argues that the 2012 reform rebalanced the incentives to use different types of contracts. In particular, the reform coupled the relaxation of dismissal costs on open-ended contracts with a more neutral fiscal treatment of temporary contracts and measures geared at avoiding misuse of these contracts. It has been argued, however, that these restrictions on atypical contracts may depress hiring in a period of sluggish job creation. In this context, the restrictions on temporary contracts introduced by the reform have been relaxed by a decree (*pacchetto Lavoro*) that was recently approved by the government. While easing hiring regulations on fixed-term contracts as a temporary measure to revive employment growth is welcome given the current economic juncture, care must be taken to preserve the spirit of the reform, which is to tackle abuses in the use of atypical contracts and obtain a more equal fiscal treatment of different typologies of contracts. The decree also includes other measures to promote job creation, especially among youth.

OECD Employment Outlook 2013 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For questions on Italy, journalists are invited to contact Stefano Scarpetta (+33 1 45 24 19 88; stefano.scarpetta@oecd.org) or Andrea Bassanini (+33 1 45 24 90 32; andrea.bassanini@oecd.org) from the OECD Employment Analysis and Policy Division.