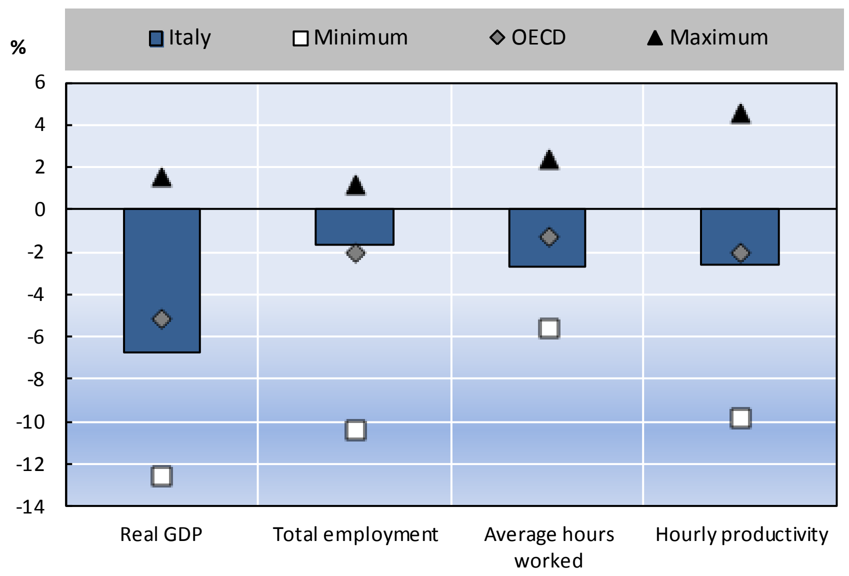
Employment Outlook 2010 – How does ITALY compare?

The impact of the crisis on the Italian labour market has been so far milder than in a number of other OECD countries. However, the ***OECD Employment Outlook 2010*** **indicates worsening labour market conditions in the last year.** The unemployment rate reached 8.7% in Italy in May 2010, an increase of 2 percentage points since the onset of the crisis (December 2007) and somewhat below the OECD-wide average increase of 2.8 percentage points. However, much of the increase in unemployment in Italy took place in the last year, when the unemployment rate rose by 1.2 percentage points, well above the average increase in the OECD as a whole. And the ongoing output recovery is unlikely to lead to a significant job creation in the short-run: indeed the OECD projections suggest that unemployment will remain at or above the current level until at least the end of 2011.

The proportion of the working age population in employment has slumped by 1.7 percentage points since the last quarter of 2007 and is now 57.1%, the fourth lowest among OECD countries after Turkey, Hungary and Mexico. Moreover, the observed decline in employment and rise in **unemployment would have been much worse had the number of hours worked not slumped during the crisis** by 2.7%, twice as much as the decline of the OECD area as a whole (Figure 1).

Figure 1. The impacts of the recession on employment, hours and productivity differed strikingly across countries

Percentage change from peak to trough



Note: OECD is an unweighted average. Australia did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q3 to 2009 Q2. Peaks and troughs are determined using real GDP series in levels.

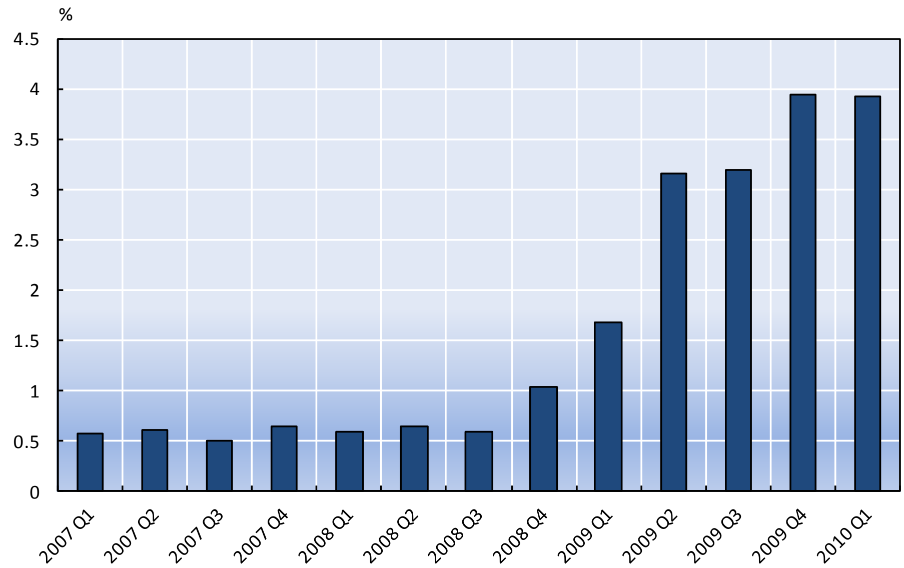
Source : OECD calculations based on quarterly national accounts and the labour force survey from national sources.

The main government's response to the jobs crisis has been to provide income support to those not eligible for unemployment benefits and, in particular, to support labour demand by scaling up significantly funds for the Italian short-time work scheme, the *Cassa Integrazione Guadagni* (CIG). This scheme makes up the pay of permanent employees affected by temporary lay-offs (who are not considered unemployed), or under a forced reduction of working hours, for a maximum of two years.

Since the onset of the crisis, authorized hours subsidized by the scheme increased by more than 600% (Figure 2) and **OECD estimates suggest that the expansion of the *Cassa Integrazione Guadagni*** (CIG) **allowed containing the contraction of the employment rate by almost 4 percentage points**. While job losses have initially been concentrated among those on temporary and atypical contracts, the recent pick up in unemployment appears to be largely due to job losses among permanent employees (195,000 permanent jobs have been destroyed in the last year). And this has occurred despite the fact that authorized hours under the CIG are still on the rise (26% up in the last three months), in contrast to most other countries with large short-time work schemes (such as Germany and France) where subsidised hours stabilised or started declining already in the third quarter of 2009. This suggests that **in future months**, when subsidised workers exhaust their rights, **the CIG might be insufficient to stop unemployment from rising further**.

Figure 2. Estimated share of total employees (full-time equivalent) in short-time work schemes in Italy

2007 Q1 to 2010 Q1



Source : OECD estimates based on total hours authorized from the Osservatorio sulle Ore Autorizzate di Cassa Integrazione Guadagni and on total employment from Eurostat's Quarterly National Accounts.

Temporary and atypical jobs (including the *collaboratori coordinati e continuativi e occasionali*) have remained approximately constant since March 2009. However, this outcome was the result of the loss of about 70,000 full-time jobs being offset by the creation, within this group, of a similar amount of part-time jobs. More generally, part-time jobs have increased by about 10% in the last year, largely driven by workers accepting to work part-time because they could not find a full-time job. This trend builds on an already large share of involuntary part-time workers in Italy. At the onset of the crisis, more than 4% of workers in Italy were **involuntary part-time**s, one of the largest in the OECD.

As the recovery gathers momentum, it is essential to create the right incentives for firms to hire more workers. The *OECD Employment Outlook* suggests that Italy is still characterised by fairly rigid labour market regulations and limited labour mobility from an international perspective. In Italy about one out of three workers is hired by, or separate from one employer in an average year, against one out of two in countries such as Denmark or the United States. If this feature of the Italian labour market initially contributed to moderate the effect of the crisis on permanent employment, it has concentrated job losses on temporary workers. Moreover, during the recovery, it is also likely to delay the employment catch-up, while also hampering productivity growth. In order to promote productivity growth and a greater creation of jobs, **a reform of employment contracts**, enhancing employment reallocation during the recovery, **would be required**. However, such a strategy would imply that, over time, forced labour mobility might increase among permanent workers. Thus, such reform should be accompanied by additional efforts in welfare policies geared at **the provision to all unemployed of adequate unemployment benefits**, even if under strictly-enforced work-availability conditions, accompanied by a well-designed activation package and such as to preserve the budget balance.

OECD Employment Outlook 2010 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 or e-mail: stefano.scarpetta@oecd.org) or Andrea Bassanini (tel: +33 1 45 24 90 32 or e-mail: andrea.bassanini@oecd.org). For further information: www.oecd.org/els/employment/outlook.