ITALY

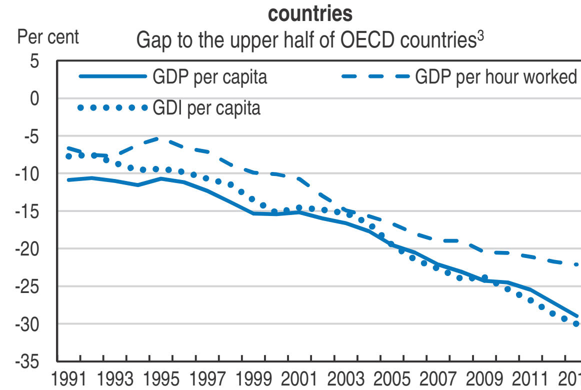
- The lack of recovery from recession is leading Italy's income per capita to fall further behind the leading OECD economies. The productivity performance continues to lag and labour force participation remains weak.
- First steps have been taken in 2014 to launch the government's ambitious reforms in various areas, notably the labour market and social protection, the tax and judicial systems. Some of the important series of measures taken in 2012, as well as in 2013, remain to be implemented.
- Pursuing the rebalancing of protection from jobs to workers' income should improve productivity by promoting a better allocation of labour to the most productive uses. Lower regulatory and ownership barriers to firm entry and exit can encourage investment, allocative efficiency and productivity growth.
- Tax simplification and broadening measures can reduce deadweight losses and opportunities for gaming the system, generating revenues to finance employment-friendly tax reductions. Labour market reforms aimed at reducing duality, and in particular achieving full implementation of a universal social safety net could also reduce inequalities.

Growth performance indicators

A. Average annual trend growth rates
Per cent

		2003-08	2008-13
Potential GDP per capita		0.2	-0.6
Potential labour utilisation		0.2	-0.4
of which:	Labour force participation rate	-0.1	-0.2
	Employment rate[1]	0.2	-0.2
	Trend employment coefficient[2]	0.1	0.0
Potential labour productivity		0.0	-0.2
of which:	Capital deepening	0.5	0.2
	Labour efficiency	-1.2	-1.0
	Human capital	0.8	0.6

B. GDP per capita and productivity have continued to fall behind the average of advanced OECD countries



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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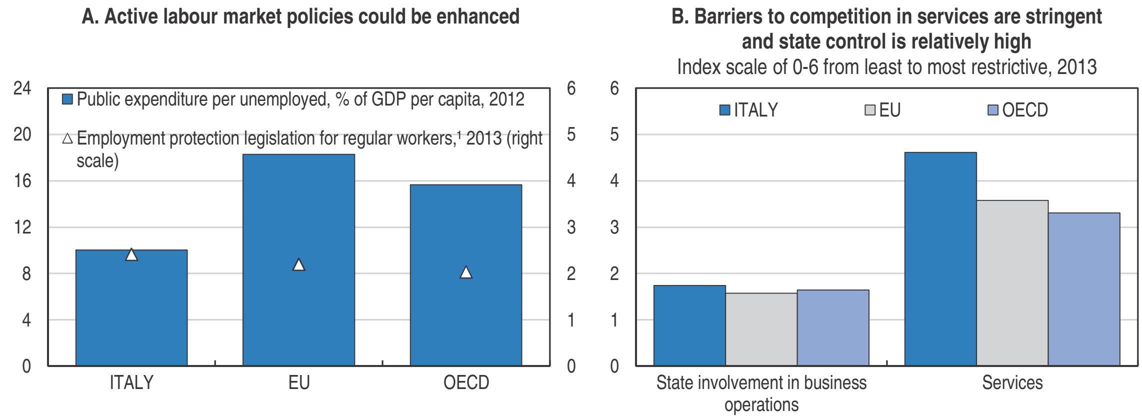
Policy indicators



1. Index scale of 0-6 from least to most restrictive.

Source: Panel A: OECD, *Public expenditure and participant stocks on LMP, Economic Outlook and Employment Protection Databases*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

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Going for Growth 2015 priorities

Priorities supported by indicators

Pursue rebalancing of protection from jobs to workers' income. Job protection of workers on some types of contracts is high, and the social safety net is relatively fragmented, resulting in a dual labour market, with implications for the efficient allocation of labour.

Actions taken: A 2014 decree removed most constraints on the use of short term contracts for a total of up to 3 years. The 2014 enabling labour market law mandates the government to introduce a series of potentially important reforms by mid-2015. These include: i) establishing a new contract for all new hires with increasing protection through time (grandfathering the rights of existing employees); ii) circumscribing the right to reinstatement after dismissal; iii) introducing a minimum wage for sectors not covered by national bargaining; and iv) extending the coverage of the new and more integrated unemployment benefit introduced in the 2012 reform.

Recommendations: Continue reducing labour market duality with more flexible hiring and firing and more predictable and less costly legal procedures, backed up with a more comprehensive social safety net and development of ALMPs. Use the monitoring system set up in the 2012 reforms to identify which active measures are most cost-effective, concentrating resources on these.

Improve equity and efficiency in education. Education gives low value for money and should do more to improve the chances of the low skilled.

Actions taken: Further specialised post-secondary vocational schools have been opened. Frequent management changes in the school evaluation agency, with a third head in four years, may undermine its effectiveness. Budgetary stringency has brought education spending clearly below the OECD average.

Recommendations: Pursue enhanced evaluation at the secondary level with a view to convincing teachers of its benefits. Further expand post-secondary vocational education. Increase university tuition fees and introduce a system of income-contingent-repayment student loans.

Improve the efficiency of the tax structure. The tax wedge on low-wage labour is high, the tax code is over-complicated and evasion is high.

Actions taken: In 2013, frequent changes to the housing tax resulted in legislative instability and uncertainty. The income tax cut introduced on a temporary basis for 2014 has been made permanent. From 2015 to 2017, new permanent contracts will benefit from a large cut in social security contributions. The 2014 enabling tax reform law provides a broad mandate to the government, including for the revision of tax expenditures and environmental taxation, to be used by end of March 2015. Legislative decrees are in the pipeline for the simplification of some aspects of the tax system, the reform of cadastral values and the revision of excise duties on tobacco.

Recommendations: Reduce distortions and incentives to evade by reducing high nominal tax rates and abolishing many tax expenditures. Reduce instability in tax legislation, including by avoiding temporary measures. Tax a wider range of environmental externalities and maintain the commitment to eschewing tax amnesties. Continue to reduce labour taxation when the budgetary situation permits with a view to encouraging labour demand and supply, while avoiding distortions associated with threshold effects in marginal tax schedules.

Other key priorities

Reduce barriers to competition. Business perceptions of barriers to competition are high, possibly reflecting weak enforcement, including inefficient civil courts. Public ownership remains relatively high. Bankruptcy laws, despite some improvement, still lead to debt recovery procedures that are slower and more costly than in other countries.

Actions taken: Less action has been taken in 2013-14, after quite extensive deregulation in 2011-12; a significant number of implementing decrees from that period remain to be issued. The Transport Authority and restructured energy and water authority are now in operation. Some streamlining of courts to improve efficiency through scale and specialisation economies, as well as digitisation of procedures, has been implemented in 2014. Privatisation has fallen short of announced targets.

Recommendations: Ensure that reforms are fully implemented and at all levels of government. Pursue privatisation and eliminate ownership links between local government and service providers. Improve incentives for efficiency in the civil courts. Further streamline bankruptcy procedures to reduce the length and cost of debt recovery.

Enhance active labour market policies. Enhanced active labour market policies (ALMPs) would accelerate the return to work and reduce the risk of unemployment persistence.

Actions taken: The 2014 enabling labour market law aims to improve ALMPs overall, notably with the National Employment Agency which would co-ordinate passive and active policies.

Recommendations: Strengthen ALMPs, concentrating resources on the long-term unemployed. Identify measures that work best in the Italian context with the system of monitoring ALMP beneficiaries introduced in 2014. Make sure that the provision of ALMPs and social benefits is closely linked to their activation.

Reform areas no longer considered a priority in *Going for Growth*

For Italy, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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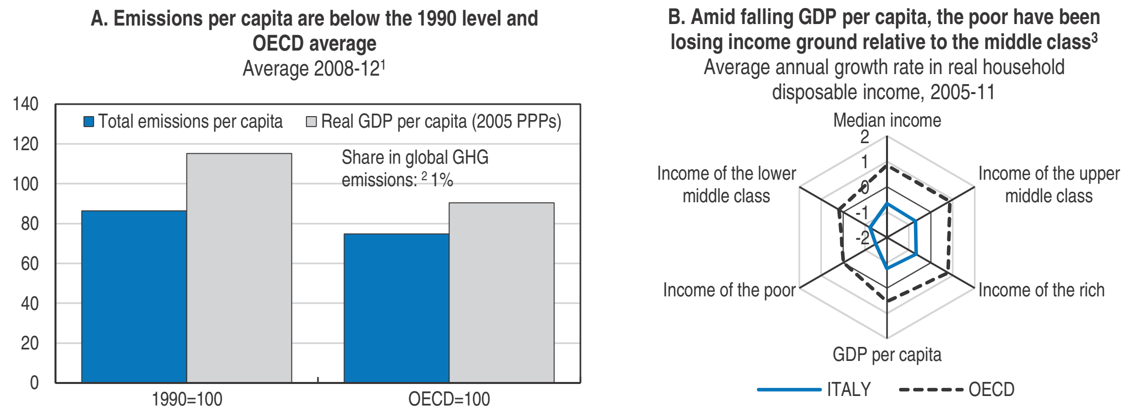
Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178703