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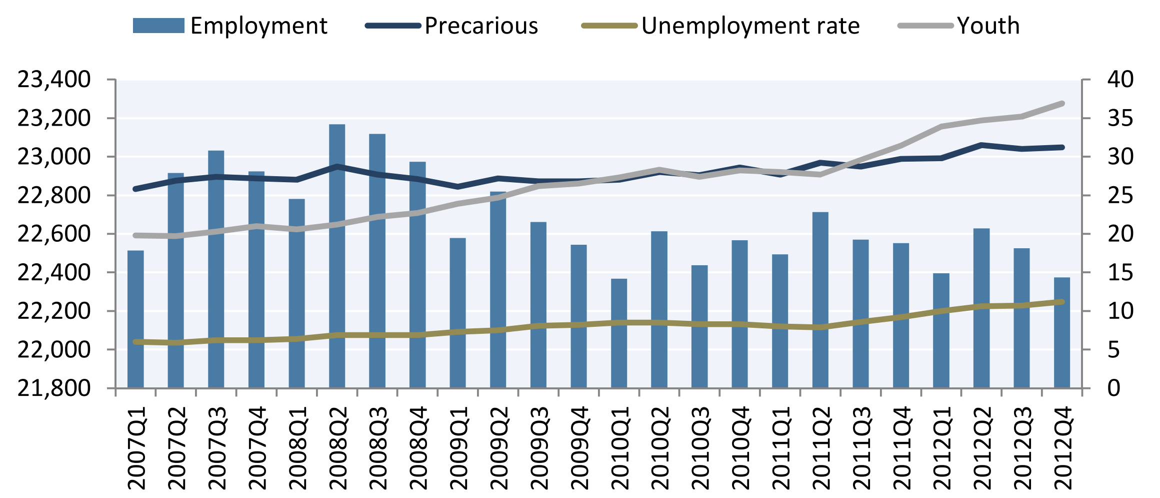
International Institute for Labour Studies

World of Work Report 2013
Snapshot of Italy

The Italian labour market shows little sign of recovery…

- After a period of stable employment levels in 2011 and early 2012, job losses have accelerated in the second half of 2012 – with close to 100,000 jobs lost in the past two quarters (Figure 1). In the last quarter of 2012, employment fell by more than 48,000 compared to the previous quarter. Moreover, since the second quarter of 2008, the Italian economy has shed roughly 600,000 jobs. Given that the working-age population has grown over this period by approximately 1.1 million, Italy needs to create roughly 1.7 million jobs to restore employment rates to pre-crisis levels .
- The unemployment rate has increased steadily since the beginning of the crisis. In 2007, it stood at 6.1% but has continued to climb, almost uninterrupted, and stood at 11.2% in the last quarter of 2012. The challenge of finding employment in Italy has been particularly acute for young persons aged 15-24: the unemployment rate among this age group has increased by 15 percentage points to reach 35.2% in the last quarter of 2012 (Figure 1).
- Precarious employment (either involuntary fixed contracts or involuntary part-time), has also become widespread. Since 2007, the number of precarious workers increased by 5.7 percentage points, reaching almost 32% of those employed in 2012 (Figure 1). This has been accompanied by a larger share of fixed term contracts, probably a consequence of the Fornero labour reform.

Figure 1. Employment situation, 2007-2012, quarterly



Note: Employment (in thousands of people) on the left axis. Precarious (% of employed), unemployment rate and youth unemployment rate on the right axis.

Source: Eurostat.

…which can be attributed to weak export growth and falling domestic demand.

- Exports are an important component of the Italian manufacturing sector. As a response to the crisis, Italy has implemented a set of supply-side policies with the objective of enhancing competiveness by cutting unit labour costs. These measures, however, risk being ineffective because austerity measures are being pursued simultaneously in a large number of trading partners, including those running a current account surplus. Consequently, foreign demand might not be sufficient to sustain such an export-oriented model of recovery.

- The large public deficit and unstable political situation are undermining market confidence in Italy's solvability. In 2012, government debt as a share of GDP stood at 127%, compared to roughly 100% in 2007. Despite the efforts of the European Central Bank to keep the interest rate close to zero, Italian firms – mostly SMEs –face high borrowing rates and therefore are reluctant to invest. At the aggregate level, investment as a share of GDP has fallen close to 4 percentage points since 2007.
- Wage stagnation is making households poorer. From 2007 to 2012, final consumption fell by 4.5%.Together with the decrease of aggregate investment; this contributes to the deterioration of domestic demand, falling by 11.8% since 2007. Projections by Eurostat suggest that the trend will persist in 2014.

Moving forward, the challenge is to support employment and incomes while paving the foundation for long-term growth through productive investment.

Italy could move from fiscal consolidation and reducing unit labour costs and focus more on supporting policies to promote investment and innovation:

- *Stimulate investment in the real economy:* Strengthening the mandate of the public-controlled Italian Investment Fund ("Fondo italiano d'investimento") appears as a promising policy option. The Fund could help identify promising business plans and garner financial support from banks, private and public investors, as well as venture capital—while guaranteeing part of the risk. In addition, the government could consider a range of tax incentives to undertake productive investment, such as accelerated depreciation, which lowers the cost to firms of acquiring new assets; and exempting certain investments from taxation. In order to ensure maximum employment effects, such policies could be targeted towards capital assets that are employment-intensive or meet other goals such as energy-saving characteristics.
- *Youth and older workers are not substitutes:* When considering the recent proposal of job sharing among youth and older workers it is important to note that youth and adults are not substitutes in the labour market. Indeed, contact with more experienced workers via mentoring can provide mentoring, instil good workplace practices, and help to dispel misconceptions regarding the attitudes of youth. But, the government might consider other means by which to support youth employment, including for example youth guarantees to keep young persons attached to labour market, hiring subsidies targeted to those most disadvantaged (long-term unemployed or low-skilled), training grants, and efforts to improve skills matching.
- *Monitor atypical forms of employment*: It will be important to monitor and evaluate the recent proposal of reducing by one-third the time period in-between two consecutive fixed-term contracts. As precarious employment continues to rise, greater efforts may be merited to incentivise the conversion of fixed term contracts to permanent ones.
- *Greater support to active labour market programmes*: ALMPs have been traditionally underdeveloped in Italy. ALMPs spending per participant are less than half than in the EU-15 average. After an increase following 2007, total expenditure for labor market policies has been stagnant since 2009. In this respect, a good step forward for Italy would be an effective implementation of the European "Youth Guarantee" program.

World of Work Report 2013: Repairing the economic and social fabric is available at (www.ilo.org/INST). For further comments, journalists are invited to contact Vincenzo Spiezia (tel +41 22 799 7039; email: spiezia@ilo.org) or Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO's International Institute for Labour Studies.