World of Work 2012
Snapshot of Italy

International Institute for Labour Studies

The labour market continues to deteriorate...

- Labour market performance has continued to deteriorate throughout 2011. At 56.9 per cent in the 4th quarter of the year, the employment rate is still below pre-crisis levels. At the same time, the unemployment rate at 9.7 per cent has increased by 1.9 per cent compared to the preceding quarter, reaching its peak since 2001 (Figure 1). However, this unemployment rate can be underestimated. Indeed, in addition to almost 2.1 million unemployed, there are currently 250,000 workers under Short-Term Working Scheme (STWS).
- Particularly hard hit are youth and long-term unemployed. Youth unemployment rate, which stood at 32.6 per cent in the 4th quarter of 2011 has increased by more than one half since the beginning of 2008. Similarly, the share of long-term unemployment over total unemployment has increased by as much as 51.1 per cent in the last quarter of 2011 (Figure 2). Furthermore, people are exiting the labour market altogether: the rate of discouraged workers has increased in the last year, reaching 5 per cent of the labour force. The number of youth NEET ("Not in Employment Education or Training") has currently reached the worrying level of 1.5 million.
- There are also serious issues with regards to the quality of the jobs created. The shares of both temporary and part-time employment have increased since the beginning of the crisis, reaching 13.4 and 15.2 per cent of total employment respectively. Moreover, 50 per cent of part-time and 68 per cent of temporary employment is involuntary.
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Figure 1: Percentage changes in employment and unemployment rates

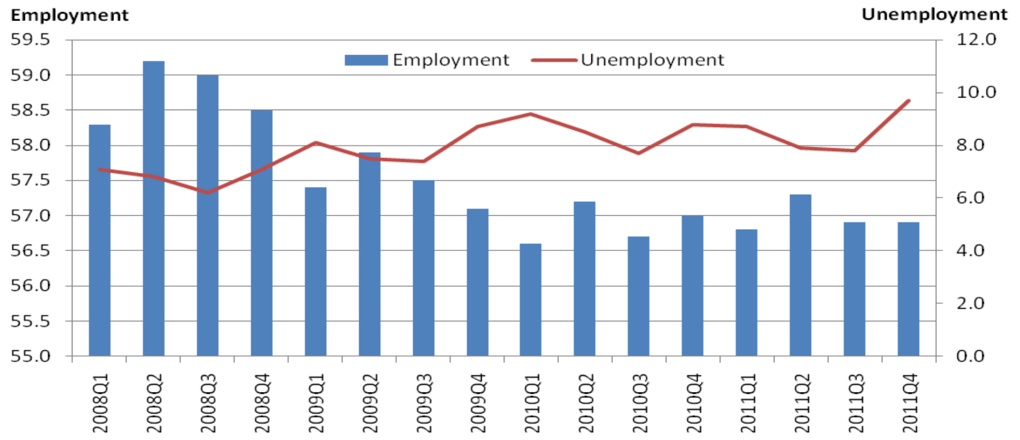

Figure 2: Youth unemployment and long-term unemployment rates

Source: IILS based on Eurostat data

…and fiscal austerity hampers economic recovery.

- Italy has entered the second recession since the beginning of the global crisis. The recovery is being hampered by the contraction in private consumption, driven by the widening gap between inflation and wages. Furthermore, the investment rate has declined since 2010 and the growth in external demand has slowed. On top of this, government expenditures as a percentage of GDP have decreased by 2 per cent from 2009 to 2011, with a direct negative effect on public investments.

- Public debt skyrocketed from 103 per cent in 2007 to 120 percent in 2011, increasing the country's borrowing costs and posing doubts on the sustainability of public finances. In order to reduce the government deficit, the tax burden has been increased, and it is estimated to reach 45 percent in 2012. Such austerity measures risk having a pro-cyclical effect on the recession, postponing economic recovery and fiscal consolidation.

- The economic slowdown is also related to restrictions in the access to credit. Despite major liquidity injections from the European Central Bank (ECB), there has been a marked deterioration in the availability of bank loans and an increase in lending rates for most SMEs, together with traditional problems related to heavy administrative burdens. Limited access to credit, combined with high uncertainty in the European market can further decrease private investments, with additional negative effects on labour market recovery.

Thus, finding a sustainable balance between fiscal consolidation and employment recovery is paramount…

- *Reducing public debt without endangering economic growth*: Italy presents the second highest public debt in the European Union and some fiscal consolidation is warranted. However, the *World of Work Report 2012* shows that public investments are important to stimulate domestic demand and counter-balance the negative effects of the austerity measures. Moreover, the gap between inflation, productivity and wages should be reduced, so that a shift in income distribution would lead to higher social cohesion and investment growth. Social dialogue and collective agreement are fundamental in order to guarantee an automatic stabilizer for sustaining wages.

- *Investment growth for employment creation*: Small and medium enterprises represent the bulk of employment and it is necessary to provide them with sufficient financing options. Thus, it is important to ensure that liquidity injections from the ECB are translated into higher loans. Moreover, administrative burdens and the delay in payments from the public administration should be reduced.
- *Labour market reforms for better employment outcomes*: Italy has recently modified the collective bargaining system, extending the scope of company level bargaining. Moreover, the country is currently modifying the legislation over unemployment benefits and employment protection. Finally, there is the promotion of apprenticeship as an entry contract into the labour market.
- However, further efforts are needed in order to guarantee employment creation through adequate employment protection, overcome the segmentation of the labour market and reduce the share of precarious employment, especially for youths. Moreover, investing in active labour market policies can improve employment performances with small additional costs. Social partners can play a relevant role in the design and implementation of these reforms.

World of Work 2012: Better jobs for a better economy is available at (www.ilo.org/INST). For further comment, journalists are invited to contact Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO's International Institute for Labour Studies.