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- GDP per capita has continued to fall further behind the upper half of the OECD. Despite increasing capital intensity, labour productivity has barely grown while labour utilisation remains low.
- Legislation in 2011 and 2012 has addressed many reform priorities, with significant improvements in product market regulation, *e.g.* through the introduction of new regulators, liberalisation in some services sectors, and changes in several labour market provisions.
- Pursuing 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 competition can encourage investment and productivity growth.
- Better vocational education and support for apprenticeship programmes can increase human capital and improve income equality by increasing prospects for the low-skilled. Labour market reforms aimed at reducing duality, and in particular achieving full implementation of a universal social safety net could also reduce inequalities. Shifting the tax burden away from labour towards environmental externalities can promote sustainable growth.

Growth performance indicators

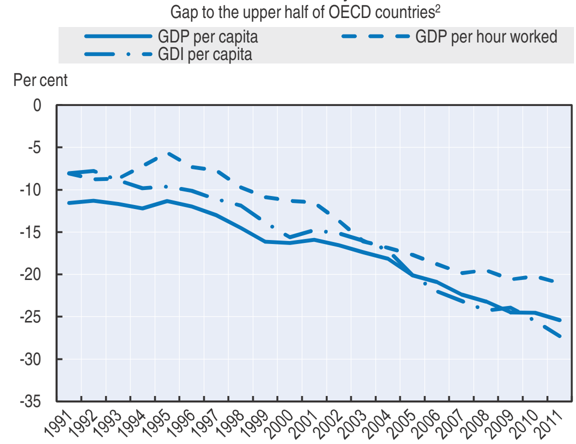
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.6	-0.1
Potential labour utilisation		0.2	-0.1
of which:	Labour force participation rate	0.0	-0.1
	Employment rate[1]	0.3	0.0
Potential labour productivity		0.4	-0.1
of which:	Capital intensity	0.5	0.3
	Labour efficiency	-0.7	-0.8
	Human capital	0.6	0.4

B. Gaps in GDP per capita and productivity have widened substantially

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. 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: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

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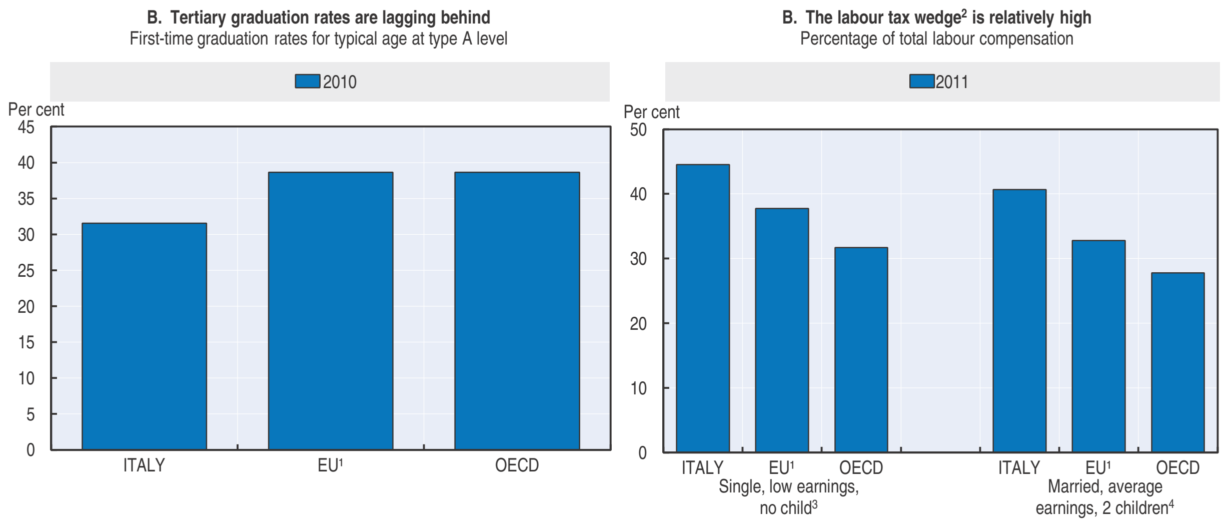
Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Labour income taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
3. Low earnings refer to two-thirds of average earnings.
4. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: OECD, *Education at a Glance* and *Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932777055

Identifying *Going for Growth 2013* 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: The 2012 reform makes conciliation for labour disputes mandatory, widened the cases in which courts can order financial penalties for dismissing a worker on an indefinite contract instead of reinstatement, and introduces a universal unemployment benefit system, to be phased in by 2017.

Recommendations: Continue reforming the labour market with more flexible hiring and firing and shorter legal procedures, backed up with the planned universal social safety net.

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: Twenty-seven specialised post-secondary vocational schools have now been opened.

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: Some necessary tax increases have focused on indirect taxation. In 2012 a reformed municipal housing tax was introduced.

Recommendations: Reduce distortions and incentives to evade by reducing high nominal tax rates and abolishing many tax expenditures. Tax a wider range of environmental externalities and reaffirm a strong commitment to eschewing tax amnesties. When the fiscal situation permits, reduce direct taxation on labour.

Other key priorities

Reduce barriers to competition. Business perceptions of barriers to competition are high, possibly reflecting weak enforcement. Public ownership remains relatively high.

Actions taken: Wide-ranging product market reforms introduced in 2011 and 2012 include new regulators for network industries, increased power for the competition authority and liberalisation of shop opening hours. Some specialisation in civil courts on commercial cases is being introduced.

Recommendations: Ensure that laws are implemented in practice and at all levels of government, pursue privatisation and eliminate ownership links between local government and service providers. Reduce delays in the civil courts.

*****Enhance active labour market policies******.[1] Enhanced active labour market policies (ALMPs) would accelerate the return to work and reduce the risk of unemployment persistence.

Recommendations: Expand ALMPs by concentrating resources on measures that work best in the Italian context: some experimentation with monitoring and assessment could help to identify these. Introduce co-financing between the social security agency (INPS) and sub-national governments responsible for training to help align incentives.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

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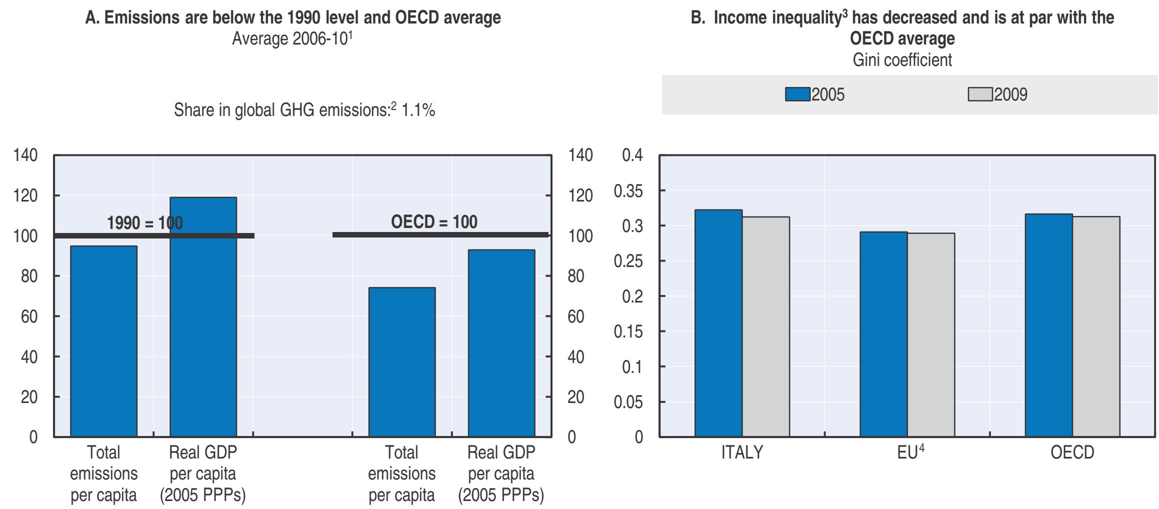
Other dimensions of well-being: Performance indicators



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 and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777074