

Chapter 1

Introduction to key trends and facts

Increased globalisation and rapid technological change, but also demographic, migration and labour market developments, have altered considerably the structure of skill requirements in most countries in recent decades.

This chapter draws on recent national and international evidence to provide an overview of the key trends and facts that represent the context within which skills imbalances emerge in Italy. Key trends analysed relate to the evolution of productivity, GDP growth as well as employment and unemployment. Others facts analysed relate to the supply of skills in Italy as well as to female and youth's labour market participation.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

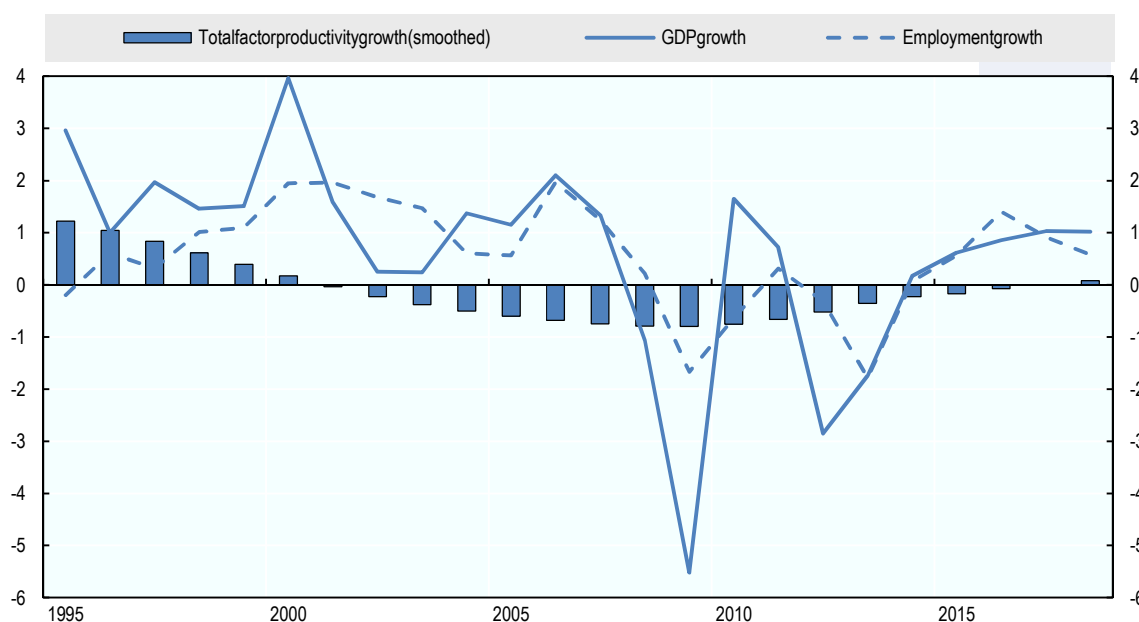
Key economic trends and facts

The global economic and financial crisis hit Italy hard and aggravated structural weaknesses in its economy and labour market

The Italian real GDP per capita dropped by about 10% since the onset of the crisis in 2008, but the country is finally recovering and both economic growth and labour market performance are giving signs of a moderate improvement.

While the crisis put an extraordinary stress on Italy's productive system and labour market, some of the causes behind the current economic weakness are deeply rooted in the Italian economic and social fabric and started well before the global financial crisis. Since the end of the 1990s, for instance, output growth has been substantially below the EU average and total factor productivity growth has been stagnant and even negative since the early 2000s (Figure 1.1). Productivity has started a slow recovery, but it is still relatively low to lead to sustained GDP growth. Low productivity levels and weak growth represent a fundamental skill challenge in Italy as these lead to a weak aggregate demand for skills and to mismatch in many areas of the economy.

Figure 1.1. The long-lasting Italy's challenges



Source: OECD Economic Outlook Database.

Differently from the experience of other OECD countries, the productivity of Italian most efficient firms in the manufacturing sector has declined in recent years (see Figure 1.2). Recent evidence (Andrews et al., forthcoming) seems to suggest that labour productivity in Italy's manufacturing sector could be around 20% higher if Italy's most technologically advanced firms were as productive (and large) as the global frontier benchmark.

Figure 1.2. Italy: Manufacturing productivity of most technologically advanced firms

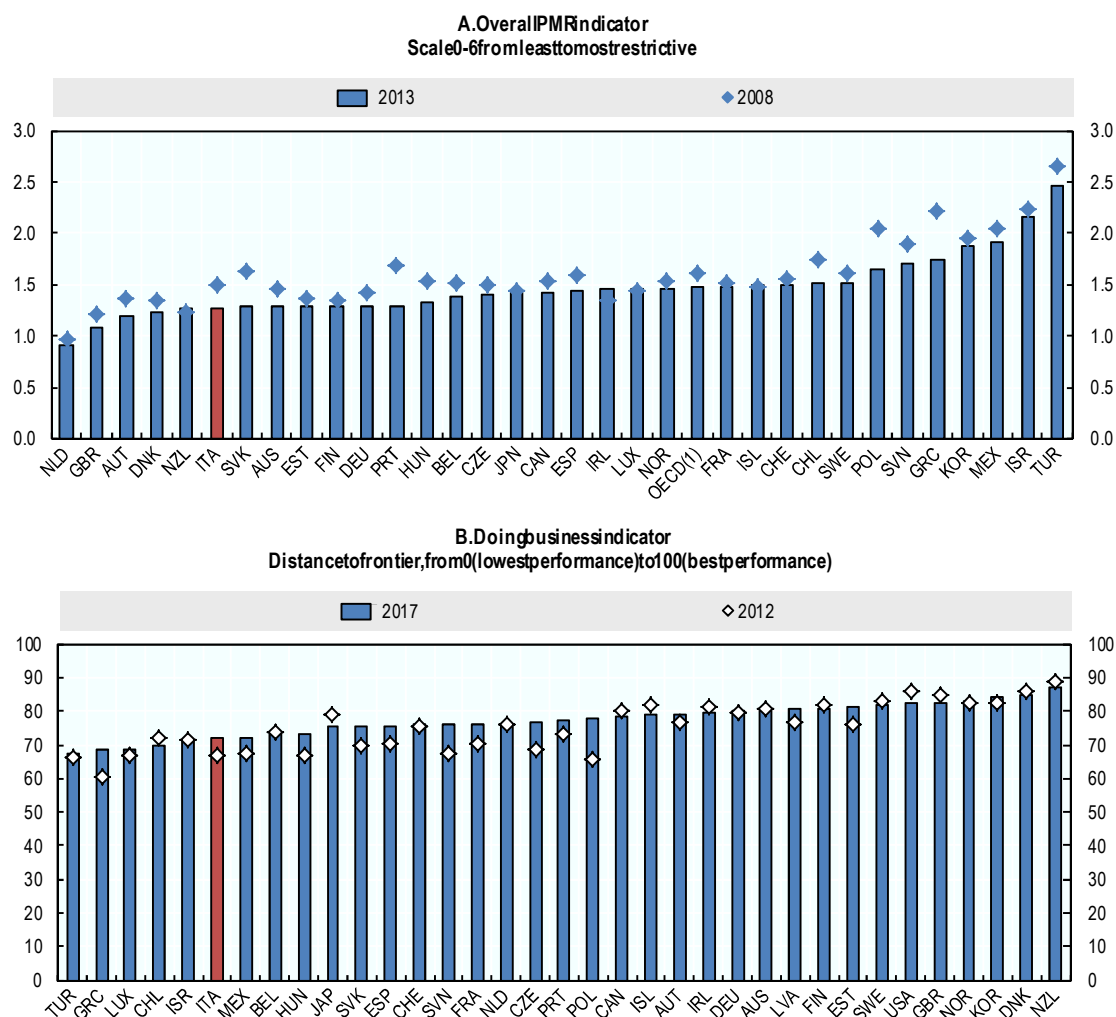
Note: Figure shows the unweighted average of real labour productivity (defined as real value added per employee) for the most technologically advanced firms in Italy (10% most productive firms). The values are normalised at their initial values in 2001 for Italy.

Source: OECD Economic Survey of Italy (2017).

Recent evidence (Andrews and Cingano, 2014) also suggests that approximately three-quarters of the productivity gap between the global and national frontier firms is attributable to the small size of Italian firms which, in turn, contributes to the weak aggregate demand for skills.

Other factors concur to explain the weaknesses of the Italian economy. While the government is committed to fiscal sustainability and continues to reduce the deficit gradually, Italy's high public debt (above 130% of GDP) is still a considerable barrier to economic growth and it represents a burden for Italy's competitiveness.¹ Despite difficulties, Italy has made several progresses in opening up markets to competition. That being said, there is still room for lowering barriers relating to state controls and public ownership, which are only close to the OECD average (Figure 1.3).

Figure 1.3. Restrictions to product market regulation have eased



1. Average of all OECD countries excluding the United States and Latvia.

Source: OECD Product Market Regulation Database; and Doing Business 2017.

The 2017 budget bill provides several incentives to boost investments and innovation – especially through the *Industria 4.0* set of interventions. The new Budget bill also lowers the corporate income tax rate from 27.5 to 24% and has recently extended social security contribution exemptions for new permanent contracts for an additional two years, limiting such exemption, however, only to regions in the south of the country as well as to newly-hired students who have completed internships at the firm (OECD, 2017).

Growth is projected to remain weak

Against this backdrop, GDP is projected to grow by 0.9% in 2016 and edge up to 1% in 2017 and 2018. Fears concerning the stability of the Italian banking sector and others related to the uncertainties stemming from the Brexit could lead to a decrease in private consumption growth in 2017 affecting the weak recovery experienced so far.

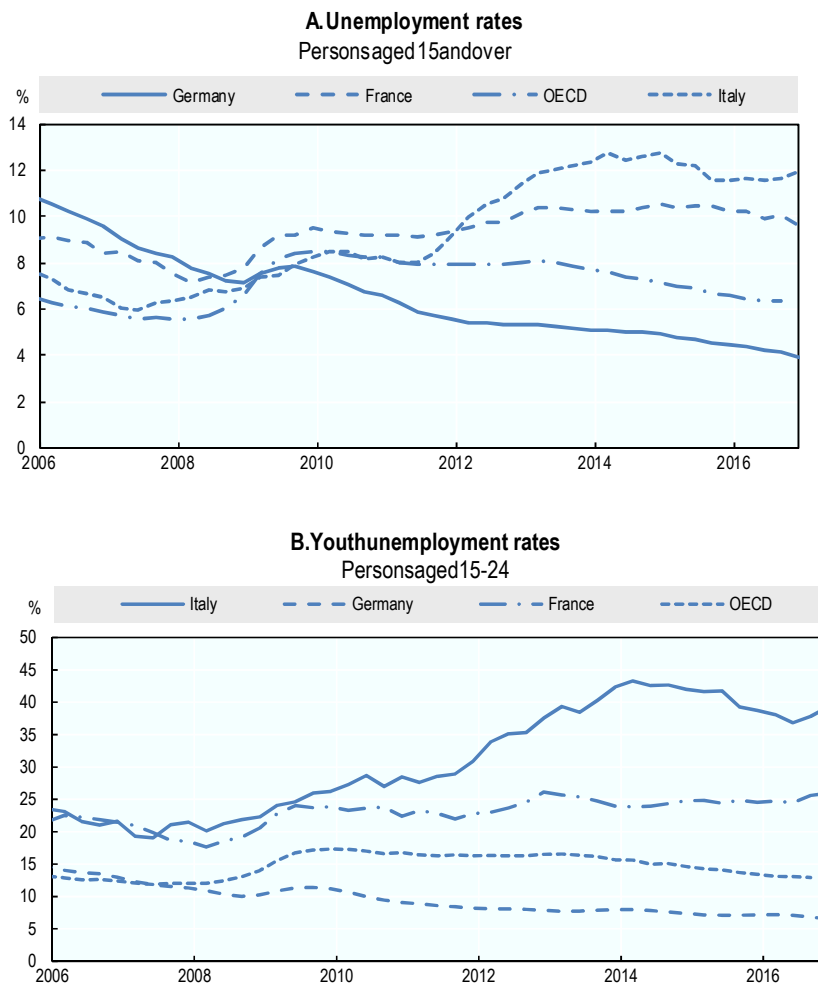
A more effective public administration, more investments in innovation and an improved business environment are needed to counterbalance these short-term challenges as well as to raise the chronically low Italian productivity performance in the long-run. These will also contribute to spur both the demand and supply of skills and their alignment in the labour market.

Key labour market and social trends and facts

Unemployment remains high, especially for youth

The negative effects of the Great Recession have been particularly severe for the Italian labour market. Since the onset of the crisis, Italy's unemployment rate has sharply increased up until 2014 and then started decreasing in more recent years (Figure 1.4). The impact of the crisis has been strong everywhere, but also uneven, hitting young Italians more than other groups in the labour market. Youth unemployment rate more than doubled in between 2007 and 2014 reaching dramatically high rates that still persist in 2016 (39.3%).

Figure 1.4. Unemployment rate in Italy has decreased

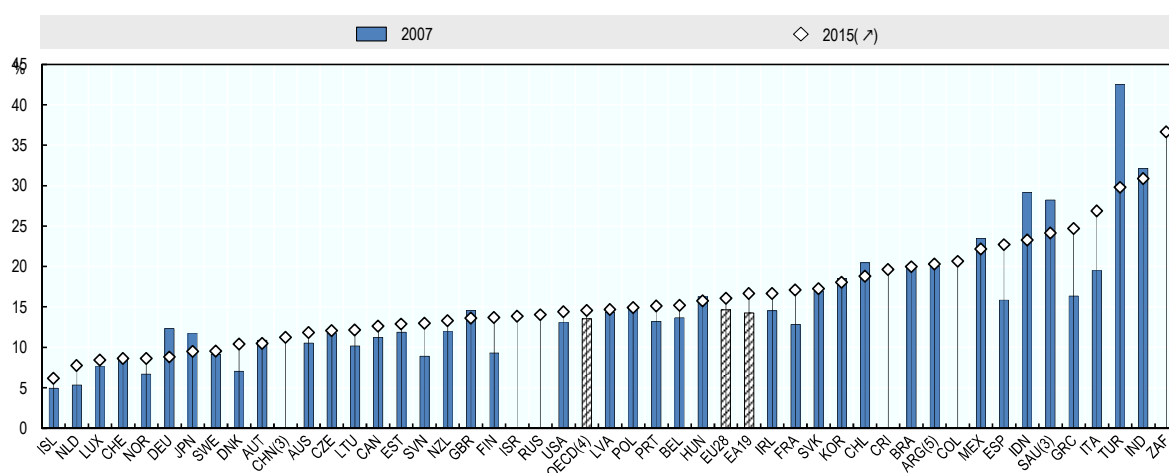


Source: OECD Labour Force Statistics.

Even more worrisome, this trend has been accompanied by an increase in the number of NEETs (youth not in employment or in education and training). Despite the recent labour market improvements, the share of NEET remains too high and this implies a substantial risk of long-term scarring effects for Italy's youth (Figure 1.5). These can lead to a permanent reduction in their employability and earnings capacity. Income inequality has also increased substantially in recent years. A recent study (Adda and Trigari, 2016) shows that age explains a disproportionate fraction of the rising income inequality. In 2015 the age of workers explained 56% of the observed income inequality, followed by regional drivers (e.g. living in the south of the country), the level of education of workers and gender, this latter explaining only 4% of observed inequality (down from 13% in 2007).

Figure 1.5. NEET rates are still very high in Italy

Percentage of youth aged 15-29 who are neither employed nor in education or training, 2007¹ and 2015²



1. Date not available for China, Israel, the Russian Federation and South Africa, 2006 for Chile, 2005-06 for India, and 2008 for Korea.

2. 2010 for China; 2011-12 for India; 2013 for Chile and Korea; and 2014 for Argentina, Brazil, Indonesia, Israel and South Africa.

3. The NEET rate has been estimated and may include unemployed persons who are studying.

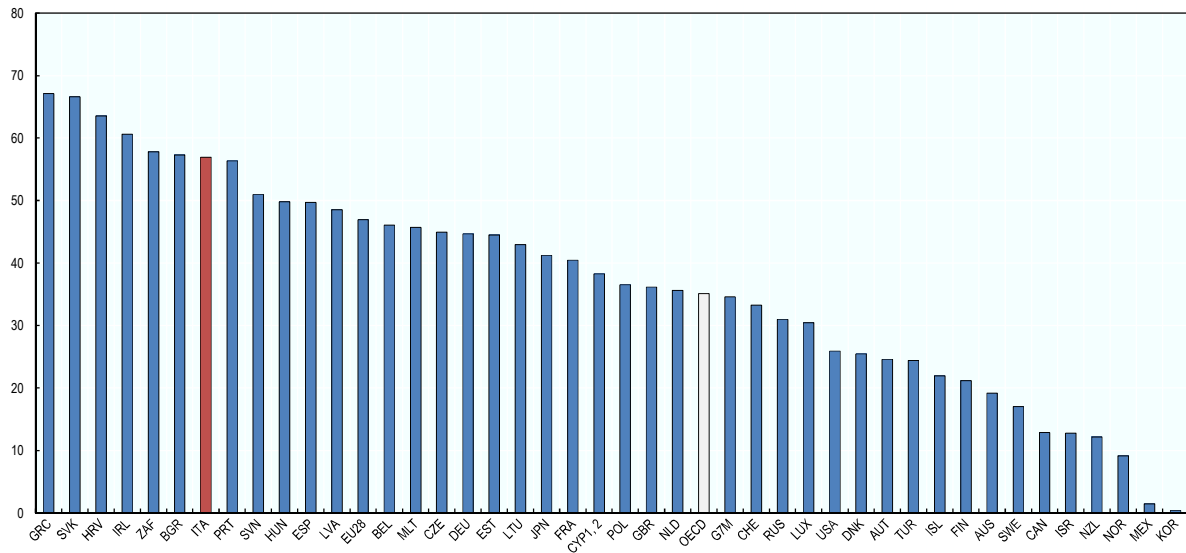
4. OECD is the unweighted average of the OECD countries shown (excluding Israel).

5. Selected urban areas only.

Source: OECD calculations based on national labour force surveys excepted census data for China and *OECD Education Database* for Australia, Israel, Korea, New Zealand and the Russian Federation.

High long-term unemployment puts skills at risk of depreciation

Italy also shows one of the highest shares of long-term unemployed (56%)² across the OECD (Figure 1.6). The risk is that of a substantial depreciation of the skills of long-term unemployed which may lead to their permanent detachment from the labour market.

Figure 1.6. Long-term unemployed rate is among the highest in the OECD

Note: Total refers to age 15-64. Long-term unemployment is defined as unemployment lasting 12 months or more.

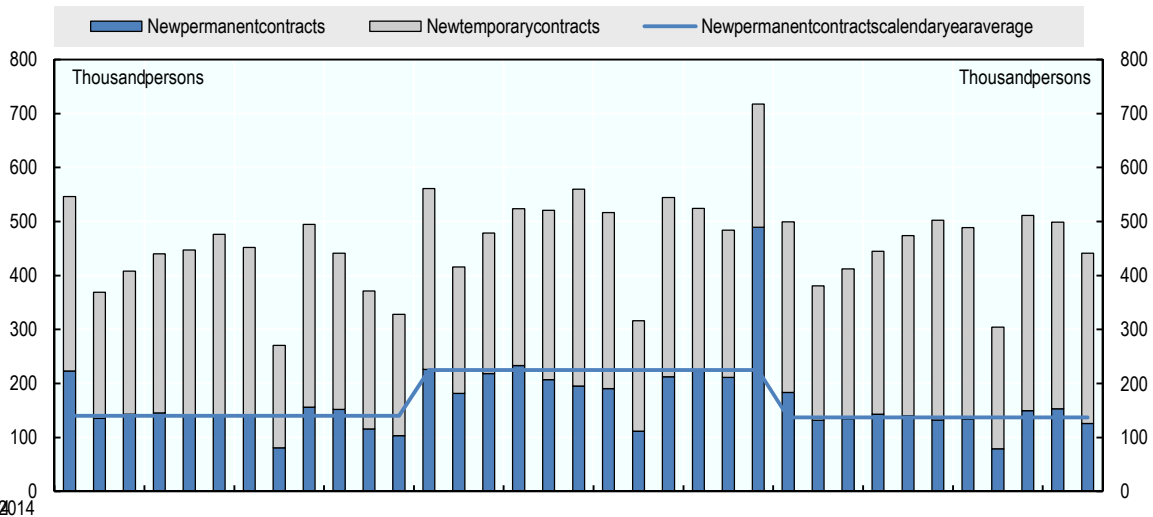
1. Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: OECD Labour Force Statistics.

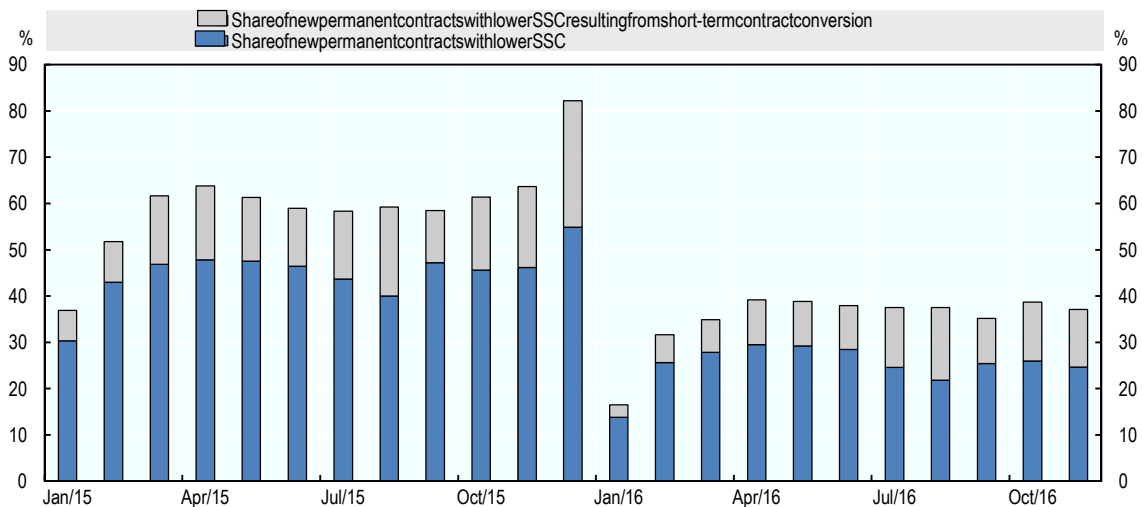
The recent labour market reform (Jobs Act) and especially the temporary exemptions from social security contributions for new permanent contracts have contributed to increase employment and participation rates (Figures 1.7 and 1.8) in the short-run but the recovery is still weak.

Figure 1.7. The evolution of permanent contracts in recent years



Source: Istituto Nazionale della previdenza sociale (INPS), Osservatorio sul Precariato.

Figure 1.8. Contracts benefitting from SSC exemptions accounted for a large share of new permanent contracts

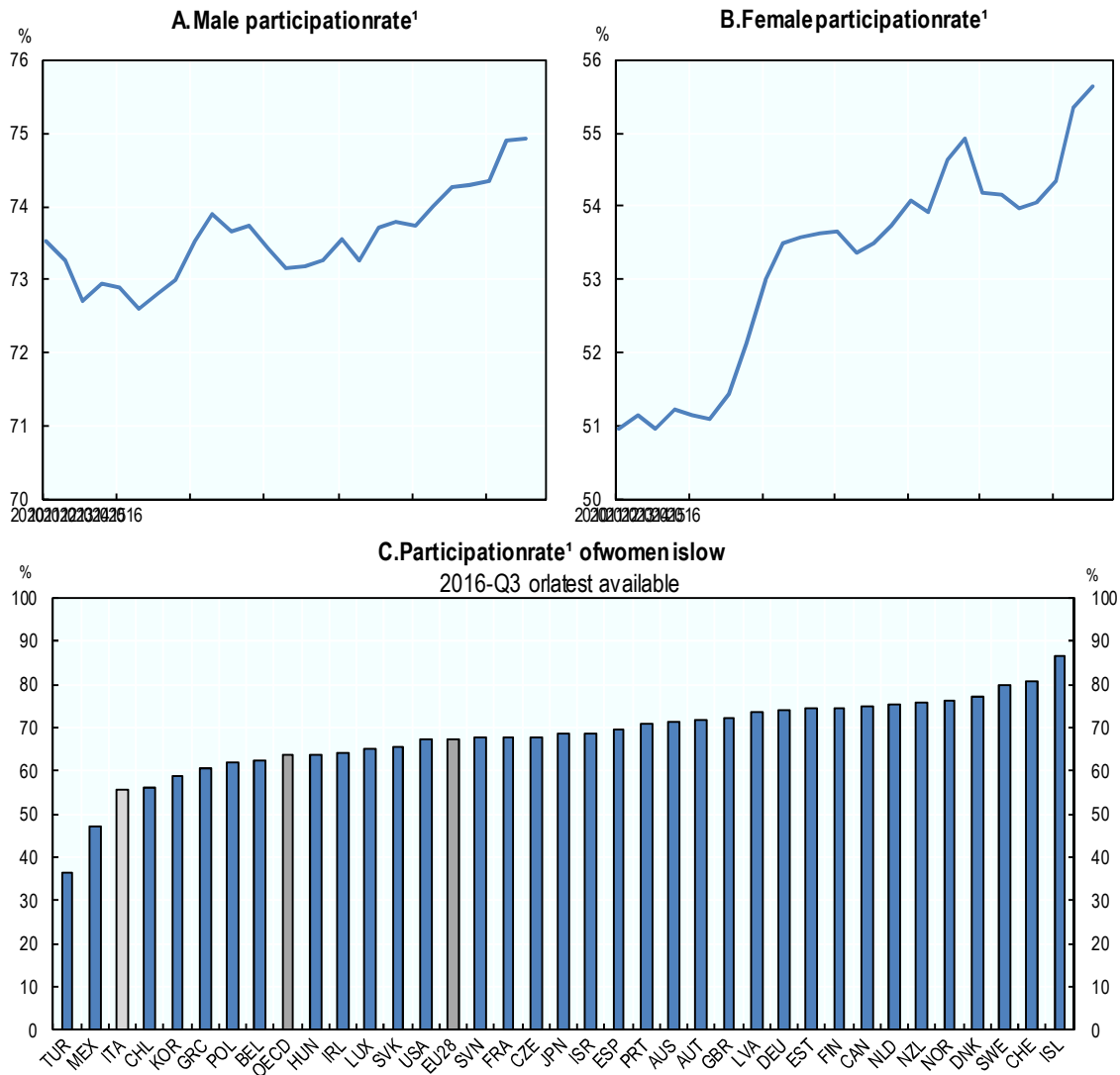


Source: Istituto Nazionale della previdenza sociale (INPS), Osservatorio sul Precariato.

Women participation to the labour market has increased but much remains to be done

While unemployment has recently declined, labour market participation increased especially among women as the crisis seemed to have affected male-dominated economic sectors. The participation of women is, nonetheless, still too low and should be boosted by additional reforms to create the necessary conditions for women to access the labour market (Figure 1.9).

Figure 1.9. Male and female participation rates



1. The labour force participation rate is defined as the ratio of the labour force to the working age population (15-64 year old), expressed in percentages.

Source: OECD Labour Force Statistics.

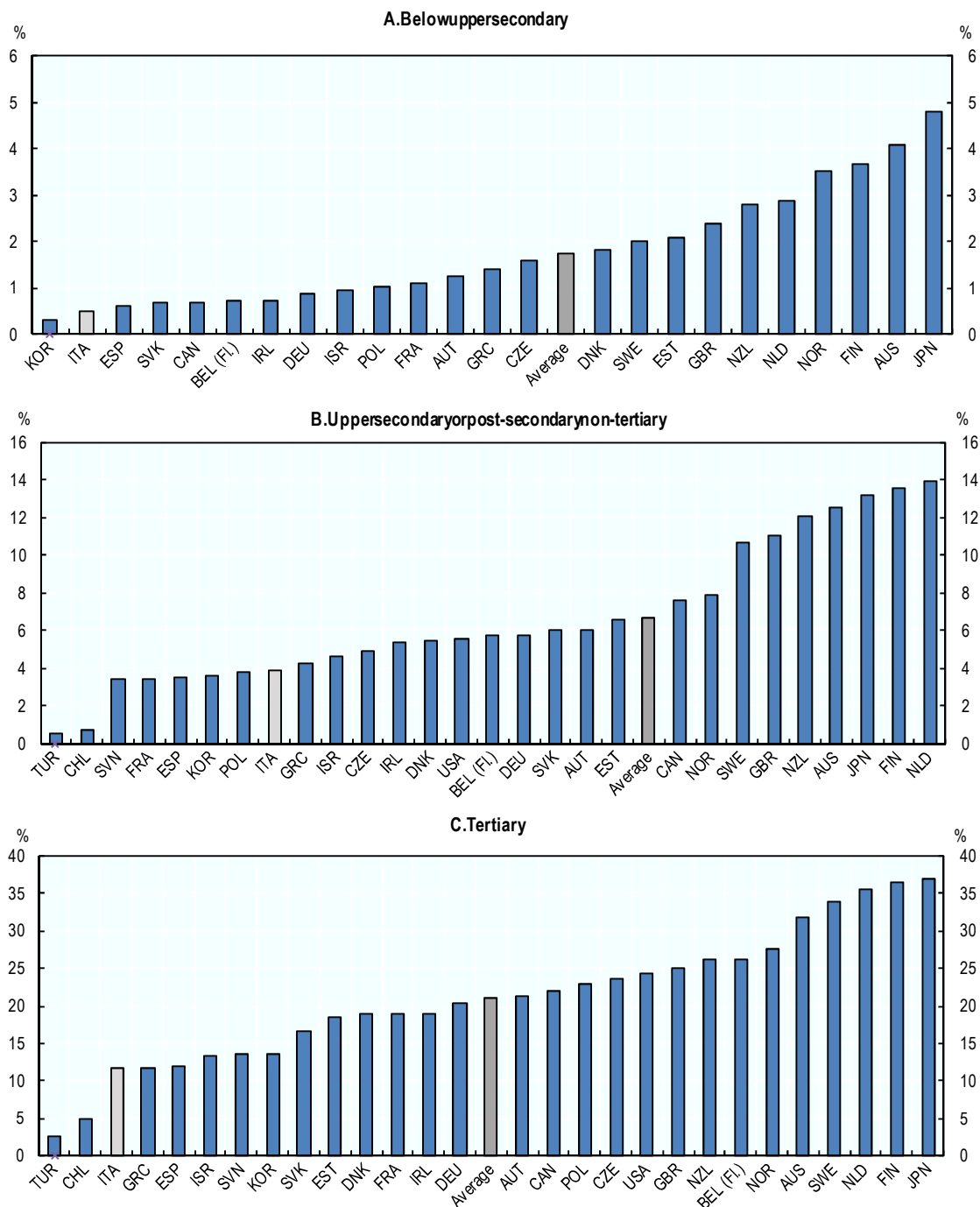
Key education and skills trends and facts

Italy performance in international skills assessment is disappointing

When compared to other countries participating to the OECD survey of Adults Skills (PIAAC), Italy underperforms both in terms of its workforce’s educational attainment and skills levels (Figure 1.10).

Figure 1.10. Skills of Italians are low at all education levels

Percentage of adults scoring at literacy proficiency Level 4 or 5, by educational attainment (2012 or 2015)



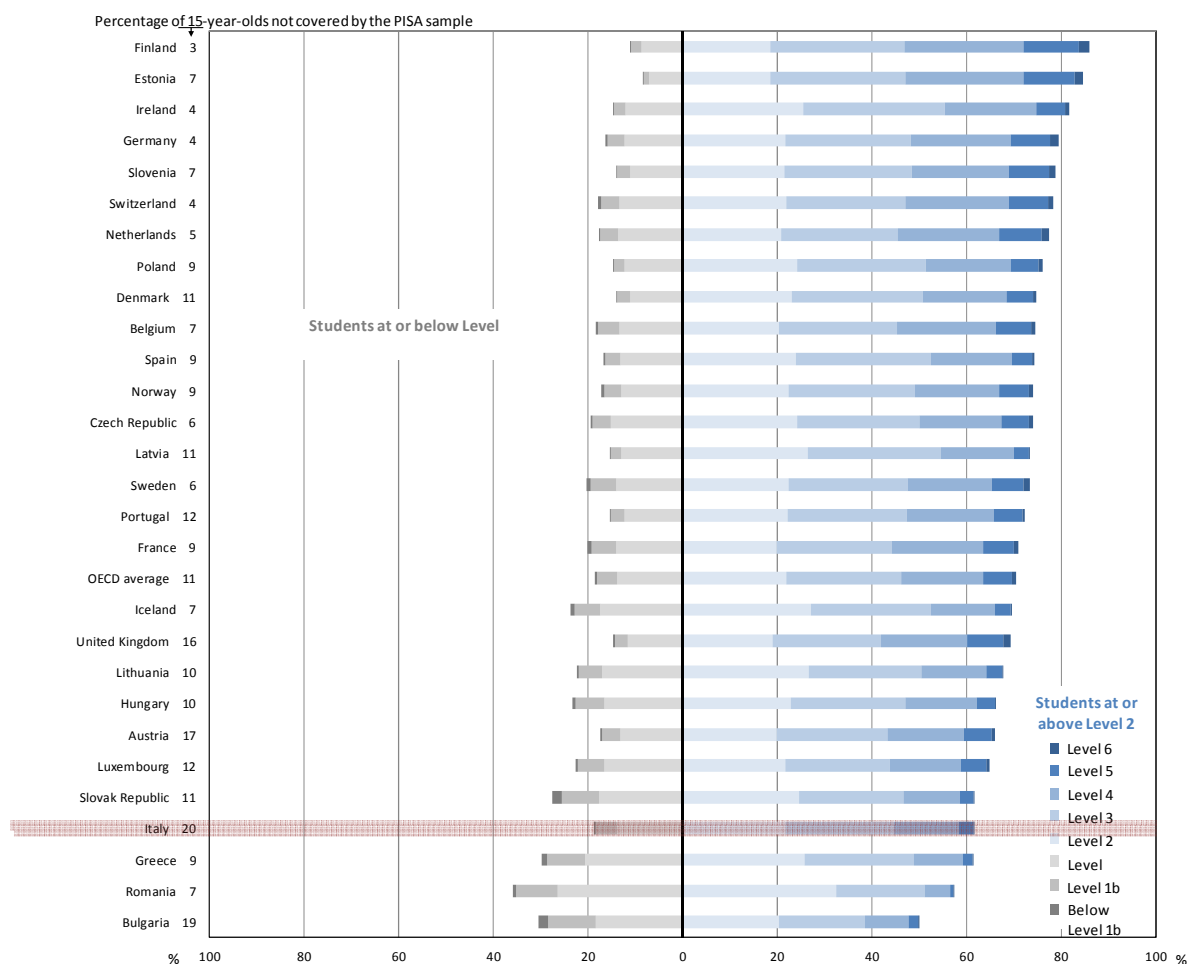
Note: The share of adults at proficiency levels 4 and 5 reflect the share of adults with high scoring at literacy proficiency.

Source: OECD (2016), *Education at a Glance: OECD Indicators*.

Challenges in developing a sufficient supply of skills start at an early age. The scores in reading, mathematics and sciences as recorded by the most recent OECD PISA assessment have increased substantially in Italy. However, average levels of proficiency in reading, math and sciences still remain low compared to other countries (Figure 1.11).

Figure 1.11. 15-year-olds' proficiency in science

Students at the different levels of proficiency in science, as a percentage of all 15-year-olds



Note: The length of each bar is proportional to the percentage of 15-year-olds covered by the PISA sample.

Countries and economies are ranked in descending order of the number of students who perform at or above Level 2, expressed as a percentage of the total population of 15-year-olds in the country.

Source: OECD PISA 2015 Database, Table I.2.1.b.

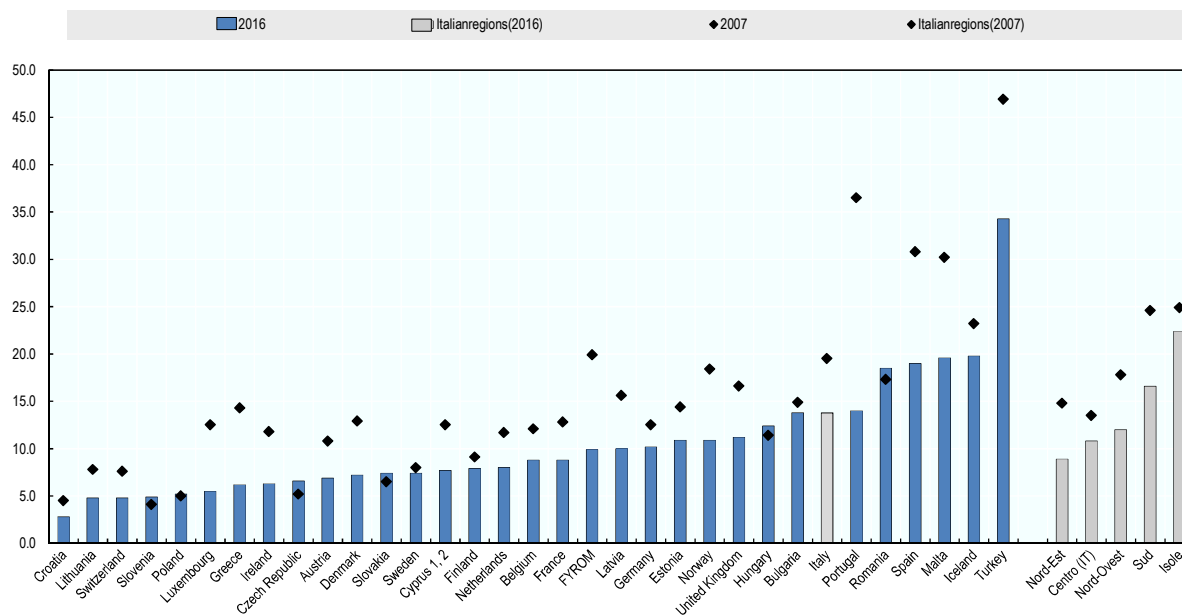
One in seven young Italians leave school without a qualification

Among the several reasons contributing to the low skill performance of Italians, early school drop-out is particularly worrisome as this is a barrier for young Italians to fully develop their skills in the formal education system. Despite a sharp decrease in the share of early school leavers in between 2007 (20%) and 2016 (14%) the number of Italy's students that left education and training with at most a lower secondary

education diploma is still one of the highest figures across OECD countries. This result, moreover, masks great regional heterogeneity (Figure 1.12) where some regions in the South and Islands show dropout rates as high as 23%.

Figure 1.12. Drop-out rates in Italy and their geographical disaggregation

Percentage of population aged 18-24 who has left education and training with at most a lower secondary education diploma (2016 and 2007)



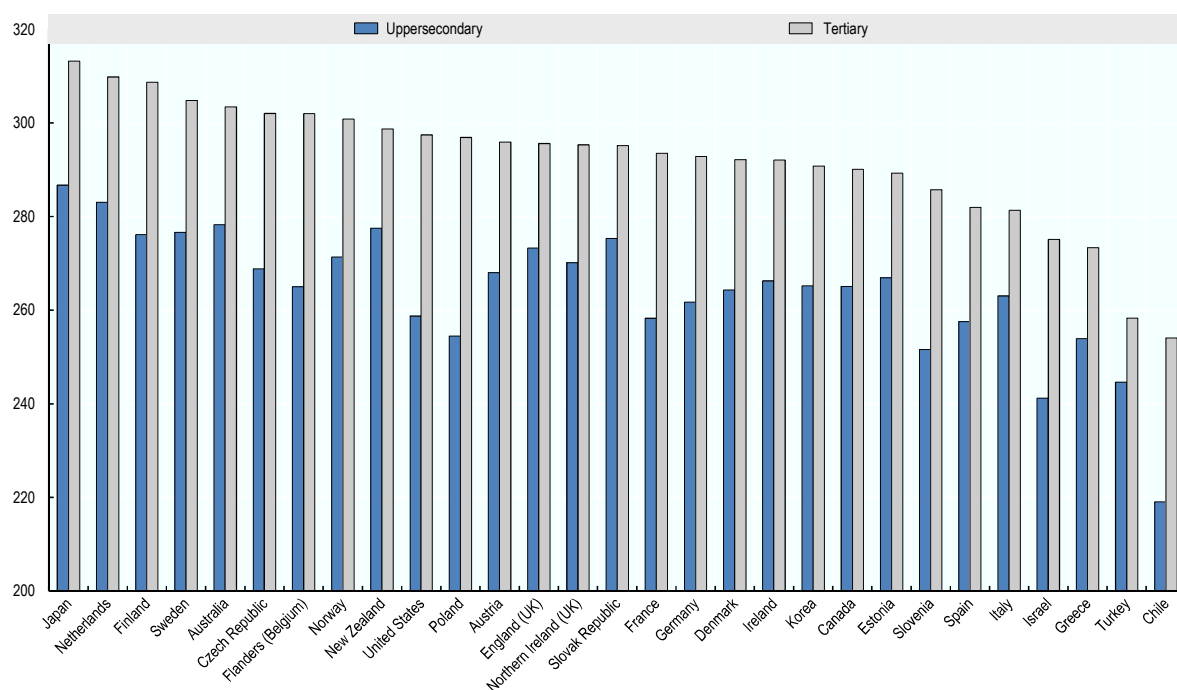
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Source: ISTAT, NOI-ITALIA Database, 2016 and OECD (2017), *OECD Economic Survey of Italy*.

Tertiary graduates also perform poorly in foundation skills

Tertiary education plays also a fundamental role in the creating the supply of skills that are needed to match the requests of employers in the labour market. Results from the OECD survey of Adults Skills (PIAAC), show that the mean literacy proficiency score of Italians with either an upper-secondary or tertiary degree is well below the average of the OECD (Figure 1.13). Worryingly, the weak performance of Italian graduates is similar in both young (20-24 years) and older cohorts (25-64 years), pointing to the fact that a considerable share of young Italian graduates lacks the skills needed to compete in international labour markets. In addition, in Italy, the difference in literacy proficiency between adults with a tertiary degree and adults with lower than upper secondary degrees is among the smallest in the OECD pointing to marginal skills development in universities.

Figure 1.13. Literacy proficiency score of Italians in upper-secondary and tertiary education levels

Note: Lower than upper secondary includes ISCED 1, 2 and 3C short. Upper secondary includes ISCED 3A, 3B, 3C long and 4. Tertiary includes ISCED 5A, 5B and 6. Where possible, foreign qualifications are included, as the closest corresponding level, in the respective national education systems.

The sample for the Russian Federation does not include the population of the Moscow municipal area.

Source: Survey of Adult Skills (PIAAC) 2012, 2015.

In addition to having relatively low skills, Italians are also less likely to participate in adult education and training than their peers in other OECD countries. According to PIAAC, only 24% of adult Italians participate in education or training, compared with 52% on average in OECD countries.

Notes

1. In addition, Italians are ageing faster than the OECD average with resulting problems for the sustainability of the social security system (OECD, 2017).
2. Defined as the share of unemployed for 12 months or more

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