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# High employment rate and unresolved issues in the Italian labor market

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**Abstract**

This contribution aims to provide an in-depth analysis of employment in Italy, focusing on the positive economic outcomes of the past two years in terms of employment and unemployment rates, despite a very modest GDP growth. It also highlights the persistent structural issues in the labor market that remain unresolved.

Among these are low real wages, significant gender disparities that disadvantage women, regional differences between the North and South, high youth unemployment (especially in the South), brain drain, and the widespread prevalence of irregular work and the underground economy.

**Keywords:** Employment rate, unemployment, labor market, real wages, youth unemployment, brain drain, irregular work, digital technologies, artificial intelligence, automation

## 1. Introduction

Over the past two years, all European countries have experienced particularly strong employment growth. Notably, in Italy, the National Institute of Statistics (ISTAT 2024) reported that in 2024 the number of employed people increased significantly compared to 2023. Italy now has 24 million employed people—an unprecedented figure in this millennium, not even during the last golden age of global economies in 2007. However, this remarkable employment growth has occurred alongside modest GDP growth. While employment has risen, the economy has not kept pace.

In particular, as of November 2024, the number of employed people in Italy was 1.4% higher than in November 2023, representing an increase of 328,000 individuals. This growth was primarily driven by an increase in permanent employees and independent workers—those who work without formal subordination constraints, including entrepreneurs, freelancers, self-employed individuals, family business assistants, cooperative members, collaborators, and occasional workers. Conversely, the number of temporary employees declined. By the end of 2024, there were 780,000 more employed people compared to 2019, before the pandemic. Full-time employment returned to 2007 levels, while the share of part-time workers decreased. Meanwhile, unemployment reached its lowest level in years. The employment rate rose by 0.5 percentage points in a single year, reaching 62.4%. This is the highest level ever recorded in ISTAT's seasonally adjusted quarterly historical series, which began in 2004.

These statistics might suggest that the Italian labor market is thriving and that the structural problems that plagued it in previous years have been resolved. But is this really the case?

In this contribution, I will delve deeper into the analysis of employment in Italy and show that, despite the positive economic results of the past two years, most of the labor market's longstanding issues remain unresolved.

## 2. Analysis Of The Labor Market In Italy

In an earlier work (Schilirò, 2001), I examined the distinctive features that make the Italian labor market particularly complex. These peculiarities include, first and foremost, significant territorial disparities. In the northern regions, some areas experience minimal employment issues, whereas in the southern regions, the unemployment rate exceeds 20%.

A second characteristic is the high concentration of unemployment among young people. A third is the significant exclusion of women from the labor market. The female participation rate is among the lowest in Europe, and the unemployment rate for women is much higher than that of men. Additionally, women are systematically paid less than men. Lastly, the percentage of long-term unemployed individuals is exceptionally high, with approximately 60% of the unemployed remaining without work for more than a year.

Lindbeck (1996), in his analysis of the European labor market with a focus on Italy, highlighted the need to redesign employment policies and revise the system of industrial relations. The aim was to identify the optimal mix of policies and complementary interventions to preserve social cohesion while rebalancing the labor market in favor of young people and women.

During the global economic and financial crisis of 2008–2009, and subsequently during the sovereign debt crisis in the euro area in 2010, unemployment in Italy increased significantly. Between 2011 and 2014, following the "double-dip" recession, real wages in Italy declined by approximately 1.4 percent. During the same period, the unemployment rate continued to rise. The deterioration of bargaining power, therefore, had no positive effect on employment trends (Schilirò, 2015).

Several years later, in Schilirò (2018), I observed that the Italian economy, after making notable progress toward liberalizing its historically rigid labor market[1], introduced a significant number of low-productivity workers[2], including many immigrants, alongside strong wage moderation. While this approach undoubtedly supported employment growth, it came at the expense of productivity and economic growth.

Over the past two years, the Italian economy has experienced significant employment growth, despite a modest GDP growth rate that remained well below 1% in 2024.

Berson et al. (2024) emphasize that, since the COVID-19 pandemic, the euro area labor market as a whole has demonstrated remarkable resilience. The unemployment rate has remained at record lows, and employment has grown steadily despite weak economic growth and various challenges, such as the energy crisis triggered by Russia's invasion of Ukraine, geopolitical tensions, and the subsequent tightening of monetary policy. However, this employment resilience has contributed to a decline in labor productivity growth, measured by average output per employee, which has fallen below its already weak historical trend. The authors note that higher profit margins and lower real wages, coupled with reduced average hours worked per employee, have enabled firms to hire and retain more workers during periods of weak economic growth. Consolo and Foroni (2024) observed that, in this context, Italy's employment growth occurred alongside low GDP growth, with job creation driven by declining real wages that did not support productivity growth.

Let us therefore examine the possible causes of this anomalous result in Italy.

First, the Bank of Italy, in its 2024 Bulletin (Banca d'Italia, 2024), confirms that the number of employed people continued to rise in 2024, with the employment rate reaching a peak of 62.4%—a relatively strong result. However, it also notes a decline in hours worked, particularly in the industrial sector (excluding construction). Additionally, a drop in the participation rate contributed to the reduction in the unemployment rate.

Barbini and De Novellis (2025), in their analysis encompassing six dimensions, including labor supply, work quantity, imbalances between supply and demand, and wage conditions, highlight that the modest wage response to price increases in recent years has been a key factor driving employment growth in Italy. The contraction in real labor costs appears to have encouraged the substitution of other production inputs with labor. Compared to the major economies of the euro area, Italy has exhibited weaker wage dynamics, which have incentivized hiring. However, this trend has also created challenges for workers' purchasing power.

Moreover, according to Barbini and De Novellis (2025), another factor likely supporting employment is "labor hoarding"—a strategy used by companies to preserve their human capital by retaining underutilized staff, even during periods of reduced activity, to prevent the loss of skilled workers.[3]

Barbini and De Novellis (2025) identify two major issues in the labor market: the level of real wages, as noted earlier, and job vacancies. A significant number of vacancies indicates production constraints due to labor shortages, particularly in the service sector. This issue is compounded by the limited availability of qualified workers, especially those trained to use modern digital technologies effectively. At the same time, vacancies are especially prevalent in the catering, hospitality, and healthcare sectors. The persistence of such vacancies is, therefore, a negative indicator for the labor market.

A state of job vacancies, as highlighted by Autor and Dorn (2013), tends to reflect the polarization of the labor market—a significant consequence of digital technologies and automation. These advancements have profoundly impacted the labor market, and today, we are witnessing the rapid development of digital technologies and automation, which are driving radical changes in labor dynamics, even as the human factor remains critical (Autor, 2015; Autor, 2022; Schilirò, 2023). New digital technologies and automation processes are transforming tasks, jobs, and skills (Acemoglu and Restrepo, 2018; Acemoglu and Restrepo, 2019). The proliferation of new technologies is transforming the labor market in fundamental ways. The first implication is job displacement, while the second involves changes in occupational composition and the skill profiles required for various occupations (Schilirò, 2021).

[1] A significant first step was the so-called Treu Package of 1997. The legislation enacted under Treu comprised three laws: the delegation law of 24 June 1997, n. 196; the legislative decree of 7 August 1997, n. 280; and the legislative decree of 1 December 1997, n. 468. This was followed by the Biagi Law of 2003 and later the Jobs Act, specifically the law of 10 December 2014, n. 183 (Capellari, 2016; Schilirò, 2022). Faced with persistently high unemployment, the Jobs Act aimed to rebalance the relationship between temporary and permanent employment contracts. It reduced flexibility at the point of hiring, introduced flexibility at the point of termination, and proposed a new architecture for the labor market system. This architecture was built around the combination of flexibility and security, where the concept of 'security' was decoupled from the worker's attachment to a specific company. Among its provisions, the Jobs Act included a reformulation of social safety nets. For the first time in Italy, it introduced a welfare-based unemployment benefit designed to support the majority of unemployed workers. It also emphasized the implementation of active labor market policies to facilitate transition processes (Capellari, 2016).

[2] These are defined as entities with low output per employee.

[3] This strategy is typically attributed to the costs associated with recruiting new personnel and the uncertainty surrounding the availability of candidates with the required skills in the market.

Artificial Intelligence (AI) and automation, according to Acemoglu and Restrepo (2019), affect not only manual activities—replacing or altering tasks—but also non-manual jobs. In particular, generative AI tends to transform and fundamentally change the nature of work itself (Hoffman et al., 2024). While these changes often lead to significant job cuts in the manufacturing sector, they also create demand for new professional profiles and skills. This demand frequently centers on jobs in the service sector, where employment growth can partly offset job losses in manufacturing (Schilirò, 2018).[4]

Finally, while we previously identified the employment rate of 62.4% as a relatively positive result, this figure must be contextualized within the European Union, where the average employment rate for workers aged 15 to 64 was 70.4% in 2023. Although not the lowest in Europe, Italy remains among the countries with an employment rate below the EU average.

Regarding wages, they remain low compared to those of Italy's European counterparts. The Bank of Italy (2024) reports that from 2021 to 2023, real wages declined as inflation outpaced negotiated wage increases. Although there was a slight improvement in 2024, real wages have yet to recover to their 2021 levels.

## 3. Structural Problems Of The Italian Labor Market

The structural problems of the Italian labor market persist, including low real wages, which weaken purchasing power and reduce consumption; significant gender disparities in employment, with women at a distinct disadvantage; and pronounced regional differences in employment levels between the North and the South. In fact, while the national unemployment rate fell to 5.7% in 2024, this rate in the South, though declining annually, remains at 12.5%—more than double the national average.

As noted by Barbini and Novellis (2025), the modest wage response to price increases in recent years is one of the factors contributing to employment growth. However, as Tronti (2023) emphasized, the purchasing power of Italian wages continues to suffer from long-term stagnation. A key reason for the low real wages in Italy is the low growth of productivity over the past few decades, particularly in comparison to other major European economies.[5] Since real wages typically rise in line with productivity, this stagnation has impeded wage growth.[6]

Furthermore, Italy's economy is dominated by small and medium-sized enterprises (SMEs), which often face challenges in achieving economies of scale and investing in innovation, further limiting productivity gains. Additionally, the tax burden on labor in Italy is among the highest in Europe, including income taxes and social security contributions paid by both employers and employees, further reducing net wages.

Another unresolved issue is youth employment, which remains insufficient. For individuals aged 15 to 34, the unemployment rate stands at 11.8%. At the same time, the growth in employment is more closely tied to the continued presence of older workers in the labor market. The age group experiencing the highest growth, even after accounting for demographic factors, is that of workers aged 50 to 64.

While the national unemployment rate has dropped to historic lows, young people are encountering increasing difficulties in securing employment. Despite the seemingly positive overall condition of the labor market, the youth unemployment rate rose in 2024, reaching 19.2%. This highlights the persistent challenges young Italians face in finding work, revealing a stark divide between age groups within the labor market.

Additionally, the inactivity rate[7] among young people aged 15 to 24 has climbed to 76.3%,[8] signaling growing disillusionment. Many young people appear to be withdrawing from actively seeking employment. At the same time, the total inactivity rate in Italy has risen to 33%. To align with the average of European Union member countries, an additional 3.156 million employed individuals would be required.

Moreover, while the increase in employment is driven by workers hired on permanent contracts and self-employed individuals, the number of fixed-term contract workers has decreased to 2.79 million. However, the issue of short-term contracts remains unresolved: of the 12 million employment relationships terminated in 2023, more than a third—34.4 percent—lasted less than 30 days. Brancati and Carboni (2024) highlight that between one-third and one-quarter of the Italian workforce is underemployed due to factors such as low wages, reduced working hours—particularly the surge in involuntary part-time work—and skills mismatches.

Moreover, the Italian labor market and its connected welfare system face another significant challenge: the low birth rate. In 2024, Italy recorded a new negative milestone, with fewer births compared to 2023. Our country

[4] To mitigate the negative effects of new technologies on employment, Schilirò (2009) argued that, given the continuous, rapid, and complex nature of innovation, investing in education and knowledge, as well as establishing knowledge networks, is essential. Additionally, learning processes are becoming increasingly critical for businesses and their competitiveness.

[5] The trend of total factor productivity in Italy highlights a widening gap between Italy and other major European countries since the 1990s. From 2000 to 2010, Italy's total factor productivity growth rate remained consistently negative, before rising slightly in the following decade.

[6] However, Sylos Labini (2004) demonstrated with empirical data that wages do not necessarily need to be preceded by productivity increases to rise. He also criticized the effectiveness of achieving cost competitiveness through low wages.

[7] The inactivity rate refers to the percentage of the population that is inactive, meaning individuals—often women—who neither work nor actively seek employment.

[8] In Italy, not only is the number of employed people increasing, but so too is the number of inactive individuals aged 15 to 64.

has one of the lowest total fertility rates in the world[9], alongside Spain, at 1.2 children per woman—exceeded in negative terms only by South Korea, which has a total fertility rate of 0.7 children per woman. According to some ISTAT projections, another negative record is expected in 2025.
In the 1950s and 1960s, over 900,000 children were born annually in Italy, with a peak of over one million in 1964. In the following decades, the birth rate experienced a steady decline, stabilizing at around 550,000 births per year between 1980 and 2000. By 2022, however, it had fallen to just under 400,000. This trend implies that in the coming years, the number of workers (and their National Social Security Institute contributions) will decrease, while the number of pensioners will increase. This imbalance will inevitably impact public spending and exacerbate Italy's already significant public debt (Schilirò, 2024).
Furthermore, the demographic slowdown is now an incontrovertible reality and poses a serious challenge. As it intensifies, it weakens the economy, making productivity growth even more urgent.
Italy's low birth rate and broader demographic challenges present significant issues now and will have an even greater impact in the future. This is because the cohorts approaching retirement age are very large, while, for demographic reasons, the cohorts of young people entering the labor market have significantly decreased, making it more challenging to replace retiring workers.
In response, companies are exploring various solutions to address this imbalance. One approach is to implement support programs for new hires, anticipating the natural reduction in workforce numbers in the coming years. Other potential solutions include increasing the average number of weekly working hours per employee or significantly boosting the workforce participation rates.
Another strategy involves a transformative shift in workplace organization through the widespread adoption of artificial intelligence and automation. These measures aim to enhance productivity and mitigate the pressures caused by demographic trends.
Among the long-standing and endemic structural imbalances in the Italian labor market, another significant issue stands out: brain drain, which affects both the South and North. According to ISTAT, over 1 million residents emigrated from Italy between 2012 and 2021, approximately a quarter of whom held degrees, with a significant portion originating from the North. Those leaving are typically aged 25 to 34, and about half holds at least a degree or higher qualifications.
A large share of this brain drain consists of students moving from the South to the North or Central regions, with fewer emigrating abroad. The South, in particular, has experienced a net loss of graduates: 168,000 graduates left the region between 2013 and 2022. This outflow has exacerbated the economic disparity, with Southern Italy's GDP per capita now half that of North. Additionally, over the past 25 years, the South's employment rate has grown at just one-quarter the rate of the North (ISTAT, 2023).
Another structural issue plaguing the labor market is undeclared work—a serious social and economic scourge in Italy. Undeclared workers do not contribute to National Social Security Institute, the Italian Institute for social security, yet they may still receive welfare benefits, effectively burdening the economic system twice without contributing in return. Nearly 3 million people in Italy engage in undeclared or irregular work, representing an irregularity rate of 12%. A quarter of these individuals are employed in domestic work.
The underground economy is closely tied to irregular work, bringing both economic and social drawbacks. It represents a loss of efficiency for the economic system, which operates without adherence to regulations, under conditions of inadequate protection—particularly for workers—and fosters unfair competition among companies (Schilirò, 2004).
Longo (2012) noted that the share of immigrant workers among the total number of irregular workers in Italy is particularly high. This significant presence of undeclared work among immigrants stems from two main factors: the presence of illegal immigrants, for whom undeclared work is often the only viable option, and EU and non-EU citizens with valid residence permits who, either by their own choice or employer coercion, end up in irregular employment. These arrangements are frequently pursued to retain access to benefits or maximize earnings.
The underground economy in Italy manifests differently depending on the economic characteristics of the regions involved, interacting with the productive and financial structures, the availability of infrastructure, and the social fabric. As a result, the underground economy in Northern Italy exhibits very different traits compared to South.
In the Center-North, undeclared work has grown over the years, but it tends to function as an additional form of employment. In this context, the underground economy can be described as complementary to the official economy. Conversely, in the South, undeclared work often serves a substitutive role and is closely tied to the underground economy, which is unfortunately far more prevalent in that part of the country. For example, while the the irregular employment rate in Lombardy is around 10%, it reaches 22% in Calabria.

[9] The total fertility rate (TFR) represents the average number of children per woman. It is important to note that the rate required to ensure a population can sustain itself while maintaining a stable structure is 2.1 children per woman.

## Conclusions

This contribution acknowledges the significant employment growth in Italy over the past two years, which has raised the employment rate to 62.4% in 2024 and reduced the national annual unemployment rate to 5.7%. Another positive development is that this employment growth has been primarily driven by an increase in permanent positions.

However, the structural challenges of the Italian labor market persist, while Italian industry continues to slow down. The contribution of manufacturing to GDP has declined to 18.5%, down from 20% before the pandemic. Low real wages continue to limit consumption, and while reduced unemployment should support a recovery in real wages, stagnant productivity tends to dominate this dynamic. Furthermore, gender disparities remain a major issue, disproportionately affecting women, many of whom choose to remain inactive. Additionally, significant regional disparities also persist between the North and South, with the South facing particularly high levels of youth unemployment. Other persistent issues include the ongoing brain drain, as many skilled workers seek better opportunities abroad, the widespread prevalence of undeclared work, and the continued influence of the underground economy.

The OECD (2023) has emphasized that incentives for training and start-ups, along with funding for worker retraining programs, are crucial for improving employment and overall labor market conditions. Consequently, addressing the training needs of young people and workers is essential.

The rapid development and diffusion of new technologies further amplifies the need for education, specialized skills, and higher levels of cultural competence, all of which are critical for preventing underemployment and low-wage jobs. Accordingly, the Italian labor market requires policies and investments to build a workforce capable of understanding and managing innovations, as new technologies are fundamentally transforming jobs and the organization of work.

In addition, the integration of artificial intelligence (AI) into manufacturing and service sectors—illustrated prominently by its application in the financial sector— highlights the urgent need for policies that enable businesses and individuals to harness AI's benefits. At the same time, these policies must address the risks associated with AI, as it drives a profound and transformative shift in the world of work.

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