

GERMANY

Priorities supported by indicators

Reduce average tax wedges on labour income (2005, 2007, 2009)

Recommendations: Reduce social security contribution rates further.

Actions taken: Unemployment insurance contribution rates have been lowered significantly in several steps since 2007, though the last decrease is set to be reversed in 2011. The increase in contributions for health care in early 2009 was taken back in mid-2009.

► **Reduce regulatory barriers to competition (2005, 2007, 2009)**

Recommendations: Lower professional requirements to open a crafts business, and abolish the compulsory membership in associations for liberal professions. Facilitate non-discriminatory entry into network industries.

Actions taken: The government has taken various measures, including the introduction of incentive-based regulation in the electricity and gas market, the facilitation of private equity stakes in the state controlled railway company, an easing of entry barriers in some protected handicrafts and further steps to reduce bureaucratic obstacles.

Improve education outcomes (2005, 2007, 2009)

Recommendations: Strengthen early childhood education, make schools and teachers more accountable for outcomes, reduce tracking in the school system, and increase input flexibility for universities.

Actions taken: School and teacher accountability has been strengthened through greater use of external exit exams. Several states have combined the *Hauptschule* and *Realschule* tracks into one school type and others have taken steps in this direction. Some states introduced the right for universities to select students and to introduce tuition fees, raising input flexibility.

Other key priorities

Reduce impediments to full-time female labour force participation (2007, 2009)

Recommendations: Remove tax disincentives for full-time female labour force participation by lowering the marginal tax burden for second earners. Improve access to childcare places and full-day schooling.

Actions taken: The government is subsidising a sharp increase in the number of childcare places, with the share of children in childcare facilities expected to treble to 35% by 2013. The government is also promoting full-day schools, and the proportion of children in such schools is rising quickly, albeit from a low base.

► **Ease job protection (2009)**

Recommendations: Promote regular work contracts by relaxing employment protection legislation.

Actions taken: No action taken.

Improve the placement of the long-term unemployed into jobs (2007)

Recommendations: Assign administrative responsibilities related to job placement more effectively, strengthen the conditionality of benefits on willingness to take up work, and revisit the level of benefit, beyond the 2005 Hartz reforms.

Actions taken: No actions have been taken since the 2007 introduction of wage subsidies for the low-skilled who face particular problems entering the labour market.

Reduce disincentives to work at older ages (2005)

Recommendations: Abolish preferential benefit eligibility conditions for older workers and cut subsidies for working time reductions in order to remove obstacles to employment at older ages.

Actions taken: The duration of unemployment benefits for the older unemployed was significantly reduced in 2006, although this was partially offset by a subsequent increase. The subsidised part-time employment scheme for older employees (*Altersteilzeit*) was phased out by end-2009.

Increase competition in government procurement (2005)

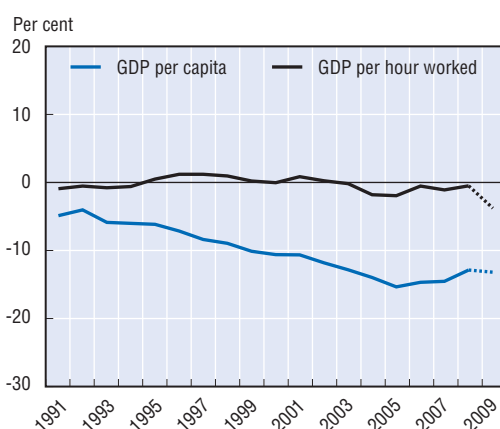
Recommendations: In order to increase the efficiency of government procurement, publication of contracts should be widened, rules across the states be simplified and the role of business associations in setting these rules eliminated.

Actions taken: A 2009 amendment to procurement legislation implements EU guidelines, simplifies procedures and strengthens the role of medium-sized companies, although rules still differ across the states.

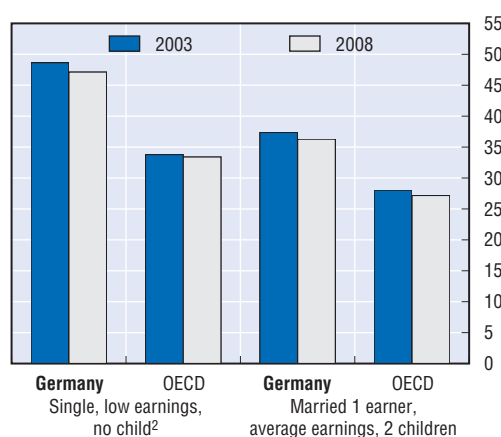
GERMANY

- The GDP per capita gap relative to the upper half of OECD countries has widened since the mid-nineties, some recent narrowing notwithstanding. It reflects foremost weaker labour utilisation, as the lower relative number of hours worked per employed person has more than offset the increase in overall employment.
- In key priority areas, labour tax wedges have been lowered, anti-competitive regulations liberalised, and the education system revamped; however, these areas remain core priorities. In other priority areas, relaxing employment protection legislation remains unaddressed.
- Some reforms in other areas have taken place recently in health care and corporate taxation.

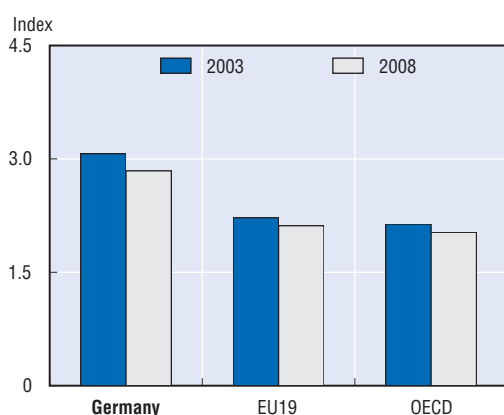
A. The GDP per capita gap remains wide
Gap to the upper half of OECD countries¹



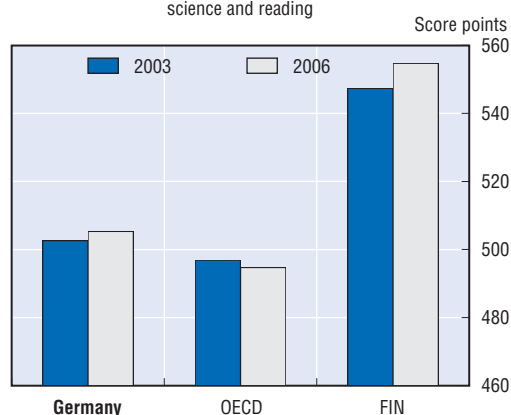
B. The average tax wedge on labour income has declined marginally
Percentage of total labour compensation



C. Professional services have been liberalised somewhat³



D. Secondary educational achievement has improved slightly
Average mean PISA scores in mathematics, science and reading



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the OECD *Economic Outlook*, No. 86.

2. Low earnings refer to two-thirds of average earnings.

3. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD, *Product Market Regulation Database*; Chart D: OECD, *PISA 2003 and 2006 Databases*.

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