

GERMANY

The gap in GDP per capita vis-à-vis best performing countries has continued to widen. Long-term unemployment is high and annual hours worked per employed worker are low.

Priorities supported by indicators

Reduce average tax wedges on labour income

The average tax wedges on two-earner households and single earners are high in comparison with other OECD countries, mostly on account of high social charges, reducing incentives to work.

Actions taken: The government is using a significant proportion of revenues resulting from the 2007 VAT increase to lower social charges. Spending on ineffective active labour market policies has been reduced and the statutory pension age has been raised, creating scope to curb social charges.

Recommendations: Lower social security contributions and finance the reductions by widening the scope for selective contracting and managed care in the health-care system, and by further streamlining active labour market programmes, as well as by further reducing tax expenditures and subsidies to the business sector.

Improve the efficiency of the education system

The share of 15 year-olds attaining weak educational results is large. While upper-secondary graduation rates are high, the tertiary graduation rate is among the lowest in the OECD, potentially narrowing the skill base for innovation activities.

Actions taken: The states have agreed on some minimum standards for secondary schools and are introducing centralised examinations more widely. Funding for providing full-time education has been raised. University study fees: coupled with income-contingent repayments, have been introduced in some states. Budgetary autonomy of universities has been strengthened.

Recommendations: Evaluate performance of all schools against nation-wide standards. Give schools more autonomy. Postpone the age of selection into different school tracks. Raise coverage of early childhood education. Further raise autonomy and outcome-oriented funding of universities. Extend study fee schemes in tertiary education to all states, together with loans with income-contingent repayments.

Reduce regulatory barriers to competition

Regulations in many activities limit competition with adverse effects on productivity. Regulations of professional services are more restrictive than OECD average. Also, special qualification-related entry requirements still reduce competition in the crafts. Moreover, administrative burdens on enterprises are excessive. In addition, entry of new firms has been lacking in most network industries.

Actions taken: A more effective regulatory regime for network access has been introduced in the energy industry and a regulator has been established for all network industries. Administrative costs resulting from, for example, statistical reporting duties have been lowered. Some states have introduced regulatory impact analysis.

Recommendations: Remove the additional qualification-related requirements which are specific to opening a business in the crafts. Deregulate the liberal professions by abolishing compulsory membership in associations. Further facilitate non-discriminatory entry in the network industries and accelerate privatisation.

Other key priorities

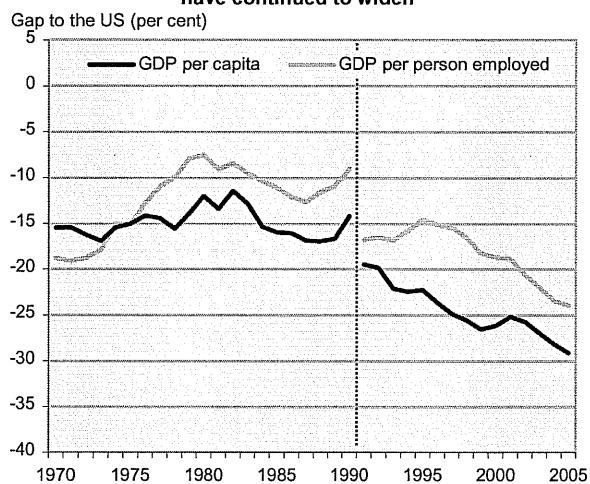
- Improve the placement of long-term unemployed into jobs by assigning administrative responsibilities related to job placement more effectively, strengthening conditionality of benefit receipt on willingness to take up work and revisiting benefit levels.
- Reduce impediments to full-time female labour force participation by improving access to child-care facilities and to full-day schooling, as well as by lowering the tax burden on households' second earners, which could be achieved by introducing a health insurance charge for the coverage of non-working spouses.

Structural indicators

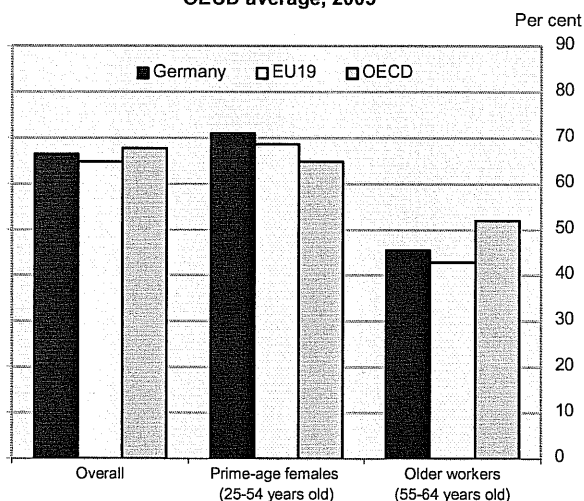
Average annual trend growth rates, per cent

	1995-2005	1995-2000	2000-2005
GDP per capita	1.4	1.4	1.4
Labour utilisation	-0.5	-0.6	-0.3
of which: Employment rate	0.2	0.1	0.2
Average hours	-0.6	-0.7	-0.5
Labour productivity	1.8	2.0	1.7
of which: Capital intensity	0.9	1.0	0.7
Multifactor productivity	1.0	1.0	1.0

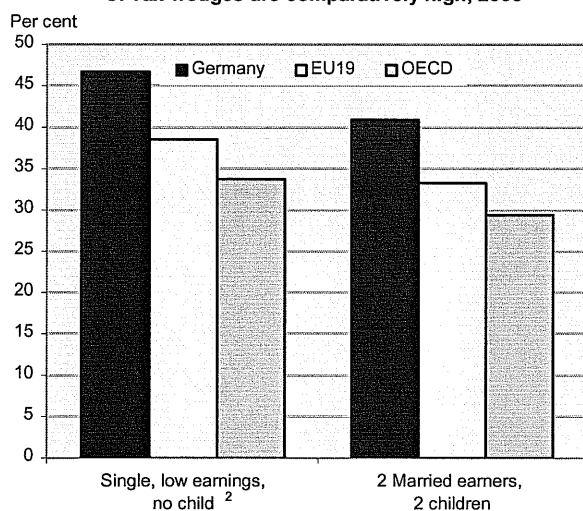
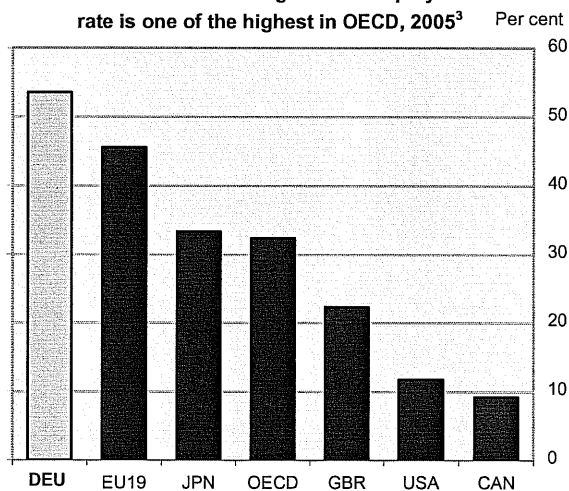
Source: Estimates based on OECD Economic Outlook, No. 80.

A. Gaps in GDP per capita and productivity have continued to widen¹

B. Employment rates are close to the OECD average, 2005



C. Tax wedges are comparatively high, 2005

D. The incidence of long-term unemployment rate is one of the highest in OECD, 2005³

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs). Break in the series in 1991, due to the reunification.

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

3. Persons unemployed for 12 months and over as a percentage of total unemployment.

Source: Chart A: OECD, *National Accounts of OECD Countries*, 2006; Chart B: OECD, *Labour Force Statistics*, 2006; Chart C: OECD, Taxing Wages database; Chart D: OECD, *Employment Outlook*, 2006.