GERMANY

For more than ten years economic growth in Germany has been weak, resulting in a widening of the gap in GDP per capita vis-à-vis *the United States and several EU countries.*

Priorities supported by indicators

Reduce average tax wedge on labour income

Because of high social charges, Germany's tax wedge on labour income is in the upper range among OECD countries and the rise in ageing-related pension and social expenditures will put further upward pressures.

Actions taken: Personal income taxes have been lowered. Pension contribution rates have been temporarily stabilised by raising ecological taxes. Cost containment measures have been introduced in the public pension and health care systems with a view to reduce contribution rates.

Recommendations: Create room for statutory income tax rate cuts by reducing tax expenditures. Create room for reductions in social charges by better targeting unemployment-related transfers, making the pension system more actuarially fair and widening the scope for selective contracting (between insurers and providers) and managed care in the health care system.

Further liberalise professional services

Providers of professional services are subject to fee schedules of professional associations – some of them legally binding – that limit competition. Contributions to enterprise associations (chambers) are compulsory.

Actions taken: Compulsory contributions to associations have been waived for new businesses for the first four years.

Recommendations: Binding fee schedules for architects and engineers should be eliminated and deregulation in other professions should be considered. Compulsory contributions to associations should be phased out.

Improve secondary education achievements

While spending per student in upper-secondary education exceeds the OECD average, educational outcomes are relatively poor. Students' average competence levels differ significantly across the Länder, which are responsible for public education. Nation-wide educational standards are mostly lacking.

Actions taken: Investment in schooling infrastructure is being co-financed by the federal government. Nation-wide educational standards have been agreed by the Länder in some fields. Language training for students with immigrant background is being stepped up.

Recommendations: Set nation-wide standards for educational attainment and regularly monitor adherence to them. Give schools more freedom in determining their own programmes on how to improve learning outcomes. Link public funding of schools to educational outcomes.

Other key priorities

- Reduce disincentives to work at older ages. Abolish preferential benefit eligibility conditions for older workers and cut subsidies for working time reductions of this group.
- Increase competition in government procurement. Widen publication of contracts, simplify rules across the Länder and eliminate the role of business associations in setting these rules.

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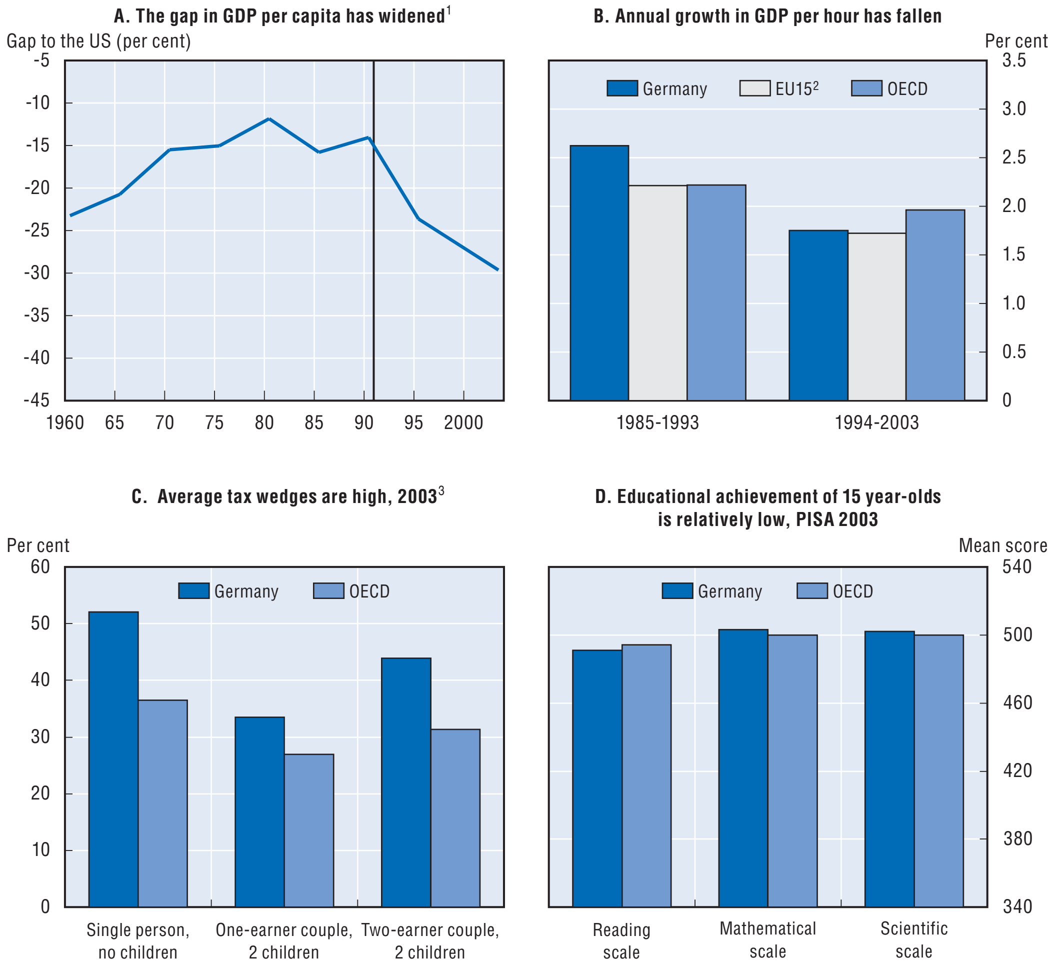
Structural indicators

	1992[1]	1995	2000	2003
Trend GDP per capita (% growth rate)	2.2	0.9	0.9	1.4
Trend employment rate	67.7	68.8	69.4	70.2
Trend participation rate	72.5	73.5	75.2	76.0
Structural unemployment rate (NAIRU)	6.5	6.4	7.6	7.7

1. To avoid break in the series due to the reunification in Germany, 1992 is used instead of 1990.
Source: Estimates based on *OECD Economic Outlook,* No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs). Break in the series in 1991.
2. Excluding Austria and Luxembourg.
3. Income tax plus employee and employer social security contributions less cash benefits as a percentage of labour costs, using average worker's earnings for the primary earner, 67% of this wage for secondary earner.

Source: Charts A and B: *National Accounts of OECD Countries*, 2004; *OECD Labour Force Statistics*, 2004; *OECD Economic Outlook*, No. 76; Chart C: *OECD Taxing Wages*, 2003/2004; Chart D: *OECD Learning for Tomorrow's World*, PISA 2003.