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- GDP per capita has remained close to the average of leading OECD countries in recent years. High labour market participation and low unemployment have reduced scope for employment gains. However hours worked remain low, reflecting the low incidence of full-time female employment. Immigration has been strong and the large number of refugees arrived recently need to be integrated in the labour market. Labour productivity growth has somewhat improved recently despite weak investment.

- Income inequality increased slightly in recent years but remains, along with poverty, lower than the OECD average.

- Some steps have been taken to reduce school drop-out and limit early tracking, but education outcomes remain closely linked to socio-economic background and education spending on disadvantaged students remains relatively low. Availability of formal childcare places has improved, reducing barriers to female labour force participation. Little has been achieved to reduce regulatory barriers to competition in services and to lower labour taxation. Little progress has been made on reducing gaps in employment protection between permanent and temporary contracts. However, labour market performance is strong and the integration of youth in the labour market remains successful, so the need to remove regulatory barriers to resource reallocation is viewed as a more pressing priority in view of low productivity growth.

- Removing obstacles for women to work full-time would improve their access to better jobs and careers, with substantial gains in terms of higher GDP and well-being as well as lower poverty risks. Enhancing equity in education would boost earnings prospects at the lower end of the income distribution. Reducing barriers to competition in services and to the reallocation of resources would raise productivity. Shifting the tax system from labour towards less distorting taxes would boost employment and raise the income of low-wage workers.

- Raising the share of environmental taxes in total tax revenues would increase incentives to reduce pollution. Removing barriers to the reallocation of resources would facilitate structural changes in the economy, including those that will result from meeting long-term greenhouse gas emission reduction targets. It will boost investment in new technologies, including those needed to achieve greener growth.

Going for Growth 2017 priorities

Remove obstacles to full-time female labour participation. The labour force participation of women is high, but their average working hours are low, especially among mothers and married women.

Actions taken: The cash-for-care subsidy, which discouraged female labour participation, was removed in 2015. The number of childcare places has increased and the government has committed more resources until 2018. Programmes to improve staff educational qualifications, support children's language development, extend childcare hours for single parents and parents with unconventional work schedules were launched in 2015 and 2016, with an expected duration of several years.

Recommendations: Continue expanding the supply of full-day childcare. Raise the staff-to-children ratio in accredited childcare facilities, further improve professionals' qualifications and better integrate education. In the taxation of 2-earner couples, lower the tax burden on the second earner, for example by introducing a separate tax-free allowance for the second earner.

Enhance equity in education. The link between socio-economic background and education outcomes is relatively strong. Many recently-arrived refugees have no formal skills. Earnings prospects of vocational education graduates at high age are relatively low and their long-term unemployment risks rise with age.

Actions taken: A few more *Länder* have reduced the number of different tracks, but pupils are still generally schooled in different tracks from the age of 12 or earlier. A mentoring programme to facilitate school to work transitions and reduce drop-out from school started in 2015. An initiative
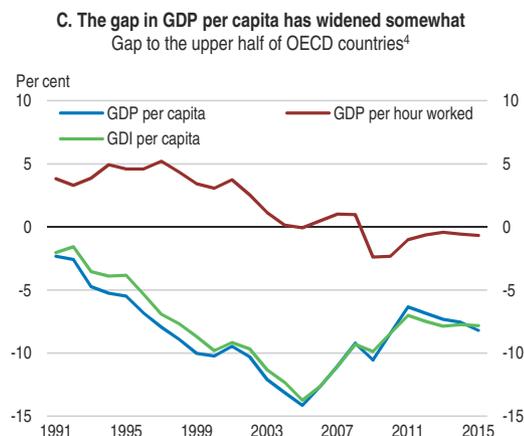
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Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.9	1.7
Labour utilisation	0.7	1.0
of which: Labour force participation rate	0.5	0.7
Employment rate[1]	0.4	0.5
Employment coefficient[2]	-0.2	-0.3
Labour productivity	-0.1	1.1
of which: Capital deepening	0.1	-0.8
Total factor productivity	-0.2	1.9
Dependency ratio	0.2	-0.3

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	29.2 (31.7)*	0.1 (0)*
Share of national disposable income held by the poorest 20%	8.6 (7.7)*	0 (0)*

OECD average

C. The gap in GDP per capita has widened somewhat
Gap to the upper half of OECD countries[4]

1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.
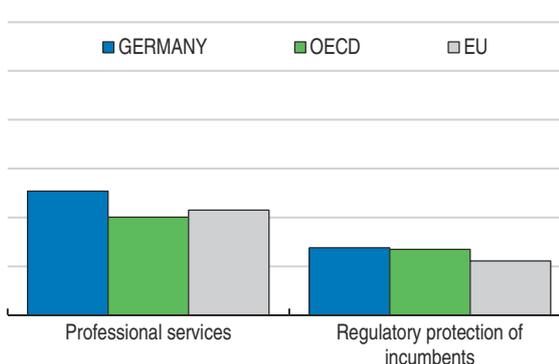
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Policy indicators

A. Taxation of second earners is high
Percentage points difference in the average tax wedge between two- and one-earner families,[1] 2015
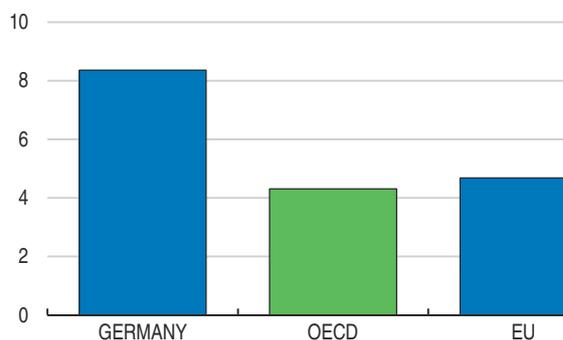
B. Regulatory barriers are high
Index scale of 0-6 from least to most restrictive, 2013

1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. The main earner earns the average earnings and the secondary earner earns 67% of the average earnings of a full-time worker in a family of a married couple with two children.

Source: Panel A: OECD, *Taxing wages Database*; Panel B: OECD, *Product Market Regulation Database*.

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is ongoing to integrate pupils with special needs into mainstream schools. Since 2015 the government has committed additional funding to promote investment in municipalities facing financial difficulties, which will also serve to improve school infrastructure. The means-tested

income support for students in higher education was raised by 7% in 2016. The government has taken stock of refugees' skills, expanded training opportunities and facilitated access to the education system. It has improved refugees' incentives to engage in training, for example by lowering legal barriers for access to the labour market.

Recommendations: Continue reducing early tracking and the assignment of pupils to special needs schools. Provide more full-day primary education and resources to schools with a high share of pupils with weak socio-economic background. Reduce grade repetition. Integrate refugee children in mainstream schooling while providing language support. Strengthen life-long learning and improve general skills of graduates of vocational education. Encourage refugees to make use of childcare. Improve training for new immigrants and the recognition of their skills. Take stock of and evaluate all integration measures. Remove remaining restrictions on access to the labour market for asylum seekers who are likely to stay.

Reduce barriers to competition in services. Regulatory barriers to competition in some services limit productivity growth. Competition has been insufficient to encourage the roll-out of high-speed broadband infrastructure networks, holding back investment in information and communication technology. Government administrations make little use of electronic governance and procurement techniques.

Actions taken: The government plans to abolish regulated prices for tax consultants in some cases. Conditions for competitors' access to the incumbent's rail infrastructure have been improved somewhat. Government spending on infrastructure has expanded since 2015, including on rail infrastructure and the roll-out of high-speed broadband networks. The government plans to implement an e-procurement system.

Recommendations: Liberalise the issuance of SIM cards. Promote electronic procurement procedures by improving skills of officials and expand electronic communication by the government. Target subsidies for broadband roll-out to highest-speed technologies. In railway transport, facilitate access of market entrants to rolling stock and strengthen the regulator. In postal services, create a level playing field with respect to VAT. In professional services, abolish price regulation, for example, for architects and engineers, reduce the range of activities that can only be carried out by specific professions and ease restrictions on business ownership and advertising. Ease qualification requirements for running a business in some crafts.

Reduce tax wedges on labour income and shift taxation towards less distortive taxes. Labour tax wedges remain high, especially for workers on low pay, and taxation is skewed towards labour income.

Actions taken: Social security contributions were lowered by 0.1 percentage points in 2015. Personal income taxes were lowered somewhat in 2016. Child benefits and child tax allowances were raised. However, social security contribution rates are expected to rise by 0.4 percentage points in 2016 and 2017. The *Länder* have agreed to a common model of taxing real estate.

Recommendations: Lower social security contributions, especially for low-pay workers. Phase out tax expenditures for activities that damage the environment, gradually adjust energy tax rates according to carbon intensity and introduce taxation of NO_x emissions. Update real estate tax valuations and apply the taxation of capital gains to residential real estate, except for owner-occupied housing. Eliminate reduced VAT tax rates, such as on hotel services. Raise the tax rates applying to household capital income towards marginal income tax rates applying to other household income.

Remove regulatory barriers to business dynamism.[1] Regulatory biases and government ownership in business sector activities hold back the reallocation of resources and investment in knowledge-based capital.

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1. New policy priorities identified in *Going for Growth* 2017 (with respect to *Going for Growth* 2015) are preceded and followed by an "*".

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Recommendations: Improve governance or privatise government stakes in the *Landesbanken*, as well as in car manufacturing, telecommunications and postal services. Strengthen the analysis of the economy-wide impact of regulation, for example by introducing an independent institution to carry out such analysis, and by raising transparency of lobbyists' involvement in public decision processes. Reduce barriers to the portability of civil servant pensions. Remove exemptions for family businesses in inheritance tax and lower taxation of real estate transactions.

Beyond GDP per capita: Other policy objectives

A. Income increased for all households, especially for those in the upper part of the distribution

Annualised growth in real household disposable income between 2008 and 2013[1]
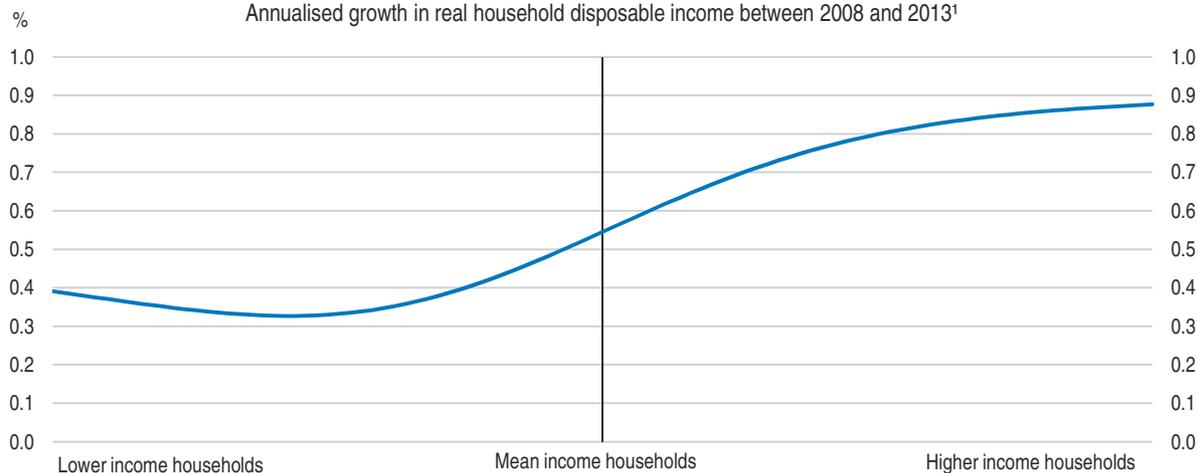
B. Emissions per capita have fallen since 1990

Average 2010-14

Share in global GHG emissions: [3] 1.9%
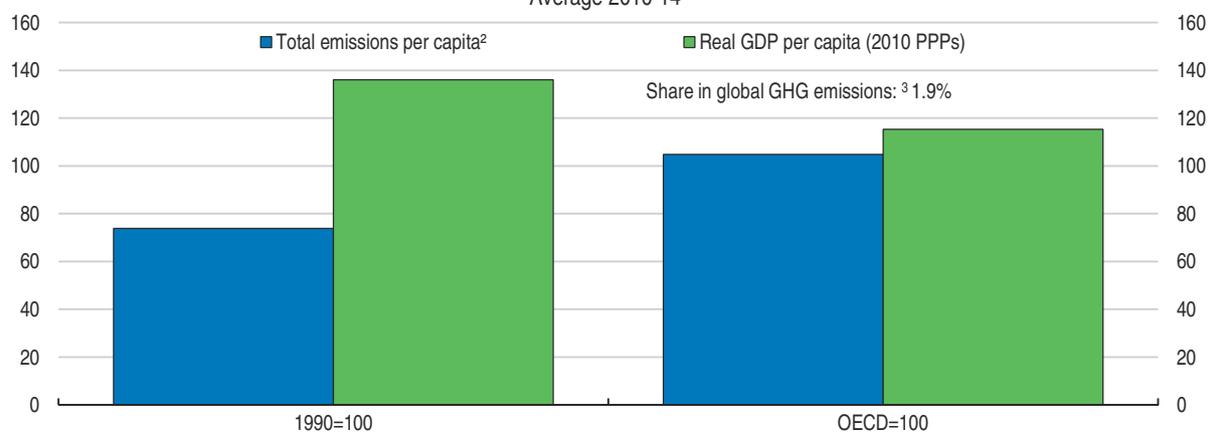
1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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