

## GERMANY

The income gap vis-à-vis the best performing countries has widened since the mid-1990s. This reflects relative declines in labour productivity as well as in labour utilisation, as the lower relative number of hours worked per employed person has more than offset the increase in overall employment. While some reforms have taken place recently in healthcare, education and the labour market, particular weaknesses still remain in the following areas.

### Priorities supported by indicators

#### **Reduce average tax wedges on labour income**

Notwithstanding some cuts in recent years, the average tax wedge remains high in comparison with other OECD countries, mostly reflecting high social contributions, reducing incentives to work.

**Actions taken:** Following the lowering of social contribution rates in connection with the rise in VAT rates in 2007, contribution rates for unemployment insurance have been further reduced, over-compensating smaller increases in contribution rates for healthcare and long-term care. Contributions rates for unemployment insurance were lowered further in early 2009.

**Recommendations:** Social security contribution rates should be lowered further. Reductions should be financed by raising the efficiency of healthcare spending through more competition as well as by continuing to shift more of the tax burden to other bases (one option being to review the current application of the reduced VAT rate and considering whether to raise the rate to the regular level for products for which a reduction is no longer justified).

#### **Reduce regulatory barriers to competition**

Regulations in many activities, in particular barriers to entrepreneurship, limit competition with adverse effects on productivity. Specifically, the license and permit system is more restrictive than in many other OECD countries. Also, administrative burdens for corporations remain excessive and the size of the public enterprise sector is large.

**Actions taken:** Measures taken include the introduction of incentive-based regulation in the electricity and gas markets, the facilitation of private equity stakes in the state controlled railway company, easing of entry barriers in some protected handicrafts and further steps to reduce bureaucratic obstacles.

**Recommendations:** Lower the additional qualification-related requirements, which are specific to opening a business in the crafts professions, and abolish the compulsory membership in associations for liberal professions. Enhance competition in network industries by facilitating non-discriminatory entry.

#### **Improve education outcomes**

While overall education achievement of 15-year-olds is around the OECD average, the share of those with weak education results is large and socio-economic background has a large impact on outcomes. In addition, the tertiary graduation rate of younger age groups is lower than in other OECD countries.

**Actions taken:** Some states introduced the right for universities to select students and to introduce tuition fees, thus raising input flexibility. University courses have been shortened and *numerus clausus* restrictions have been eased.

**Recommendations:** Increase participation in, and enhance the quality of, early child care and education to better prepare young people for subsequent studies. Make schools and teachers more accountable for outcomes and reduce the large degree of segmentation of the school system by delaying the first tracking decision and combining the *Hauptschule* and *Realschule* tracks into one school type. Grant universities more flexibility in their student intake in those states which have not yet done so.

### Other key priorities

- **Incentives for women to work.** Reduce fiscal impediments to full-time female labour force participation by lowering the tax burden for second-earners through moving to individual taxation of couples and by introducing a health insurance charge for non-working spouses. Continue with plans to increase the number of childcare places to facilitate the employment of young mothers.
- **Employment protection.** Promote regular work contracts by relaxing employment protection legislation applicable to such arrangements.

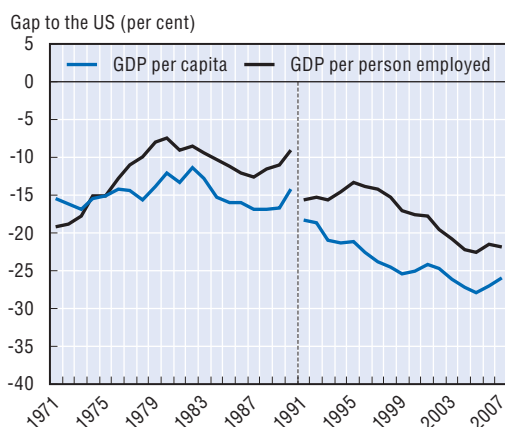
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## Structural indicators

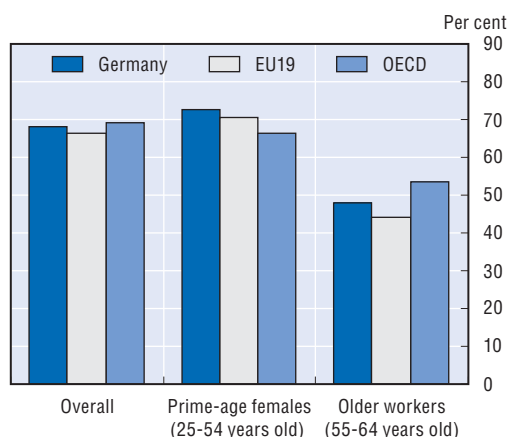
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.3	1.3	1.3
Labour utilisation	-0.2	-0.4	-0.1
of which: Employment rate	0.3	0.3	0.2
Average hours	-0.5	-0.7	-0.3
Labour productivity	1.6	1.8	1.4
of which: Capital intensity	0.8	0.9	0.6
Multifactor productivity	0.8	0.9	0.8

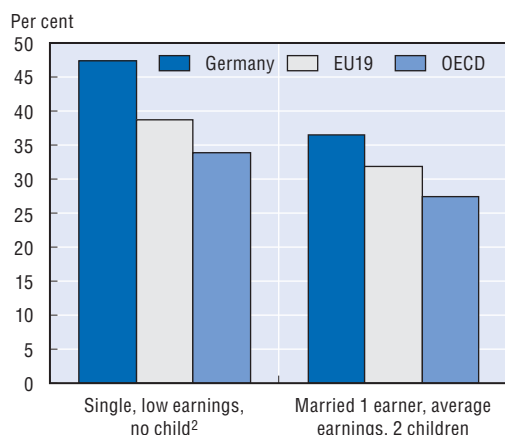
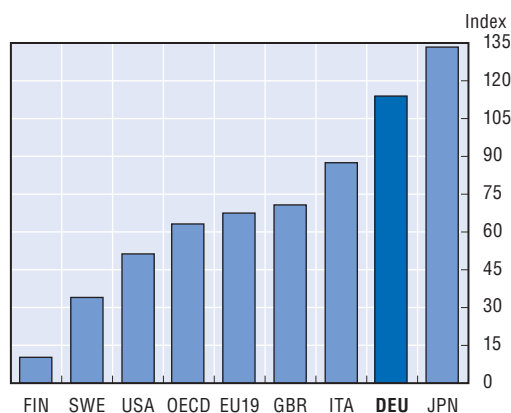
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity remain large<sup>1</sup>

B. The overall employment rate is close to the OECD average, 2007




C. Average tax wedges are comparatively high, 2007

D. Schools' socio-economic profile heavily determines student performance, 2006<sup>3</sup>

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 reunification.
2. Low earnings refer to two-thirds of average earnings.
3. Sensitivity of student performance on the science scale associated with the socio-economic profile of the school in which the student is enrolled, using the PISA index of economic, social and cultural status.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Taxing Wages Database; Chart D: OECD, PISA 2006: Science Competencies for Tomorrow's World, Vol. 1.

StatLink  <http://dx.doi.org/10.1787/533853331362>