

GERMANY

- The GDP per capita gap has continued to narrow relative to the upper half of the OECD. Labour utilisation has improved on account of rising labour market participation among older workers and women as well as immigration. However hours worked remain low, reflecting the low incidence of full-time female employment.
- Access to tertiary education has improved and tertiary graduation rates have risen as several *Länder* have reduced or postponed tracking in the school system. Despite some improvement, education outcomes remain closely linked to socio-economic background. Availability of formal childcare places has improved, reducing barriers to female participation. Little has been achieved to reduce regulatory barriers to competition in services and to lower labour taxation.
- Removing policy-induced disincentives for women to take-up full-time jobs and reducing the labour tax wedge would raise overall employment and hours worked. Reducing educational inequalities and the gap in job protection between regular and non-regular workers would encourage human capital accumulation and raise workers' employability. Removing barriers to competition in services would boost productivity growth.
- Shifting the tax system from labour towards environmental taxes would improve the pricing of negative environmental externalities. Reforms to encourage full-time labour force participation of women, to reduce gaps in employment protection and improve equality in education outcomes would make growth more inclusive.

Growth performance indicators

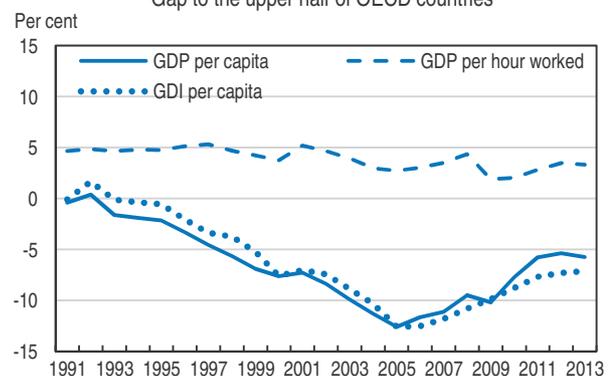
A. Average annual trend growth rates

Per cent

	2003-08	2008-13
Potential GDP per capita	1.1	1.2
Potential labour utilisation	0.4	0.6
of which: Labour force participation rate	0.4	0.4
Employment rate ¹	0.2	0.4
Trend employment coefficient ²	-0.2	-0.2
Potential labour productivity	0.7	0.7
of which: Capital deepening	-0.2	-0.3
Labour efficiency	0.9	0.9
Human capital	0.1	0.0

B. The GDP per capita gap has remained stable

Gap to the upper half of OECD countries³



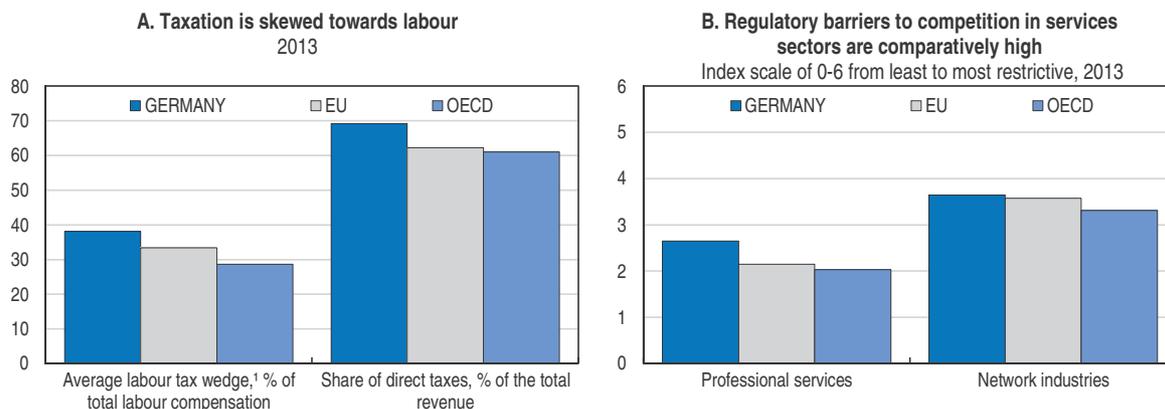
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Couple with two children, at 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: Panel A: OECD, Revenue Statistics and Taxing wages Databases. Panel B: OECD, Product Market Regulation Database, www.oecd.org/economy/pmr.

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Going for Growth 2015 priorities

Priorities supported by indicators**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 0.6 percentage points in 2013. However, more generous pension entitlements introduced in 2014 are expected to raise contributions by 0.4 percentage points by 2030. The basic income tax allowance was raised somewhat in 2013.

Recommendations: Lower social security contributions especially for low-pay workers. Update property tax valuations and extend capital gains taxes on residential real estate. Phase out tax expenditures for activities that damage the environment. Phase out reduced energy rates and eliminate reduced VAT tax rates, such as on hotel services.

Reduce gaps in employment protection. The large gap in the protection of regular workers and non-regular workers hampers upward wage mobility and reduces access to training as well as to high-quality jobs for non-regular workers.

Actions taken: Temporary agency workers must be paid the same wage as regular workers on similar jobs after 9 months.

Recommendations: Reduce the gap in employment protection between permanent and temporary workers for example by limiting the use of multiple successive fixed-term contracts with the same employee.

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Reduce regulatory barriers to competition, especially in services sectors. Barriers to competition in services limit productivity growth.

Actions taken: The government is unifying points of contact with the public administration (“one stop shops”). Germany has de-regulated long-distance bus services as of January 2013.

Recommendations: In telecommunications, liberalise the issuance of SIM cards. In railway transport, facilitate access of market entrants to rolling stock and strengthen the regulator. Privatised government stakes in the telecommunications and postal services incumbents. Abolish price regulation, for example, for architects and engineers, and reduce exclusive rights. Examine if entry conditions to crafts could be further liberalised.

Other key priorities

Enhance equity in education. The link between socio-economic background and education outcomes is relatively strong and youth dropping out early from the education system have poor lifetime job prospects.

Actions taken: Some progress has been made in reducing early dropping out. Some *Länder* have reduced early tracking in compulsory schooling. A programme is being set up to improve the transition from school to mainstream vocational education. An initiative is ongoing to integrate pupils with special needs into mainstream schools.

Recommendations: Continue reducing early tracking. Reduce the assignment of pupils to special needs schools. Provide more financial resources to schools with a comparatively high share of pupils with weak socio-economic background. Improve the transition to mainstream vocational education for youth at risk of dropping out. Reduce grade repetition. Give consideration to raising the maximum amount of means-tested student support. Develop tuition fees in combination with student loans with income contingent repayments.

Remove obstacles to full-time female labour participation. The labour force participation of women is high, but the average working hours of mothers and married women are significantly below the OECD average.

Actions taken: The number of childcare places was increased and a legal claim for parents on public care for children aged one year or more was introduced in 2013. Some *Länder* have established training courses for early childhood educators. The government has widened the scope to combine part-time work with parental leave benefits from 2015 onwards. Backward action took place in 2013: the introduction of a cash-for-care subsidy for parents who decide not to use childcare facilities has been reducing incentives to work.

Recommendations: Continue expanding the supply of full-day childcare. Improve the quality of early childhood education and care by raising the staff-to-children ratio in accredited facilities, by further raising professionals’ qualifications and by better integrating education and care. Abolish the cash-for-care subsidy. Reform the system of joint taxation and give consideration to removing free health insurance for non-working spouses, while ensuring that low-income households are compensated.

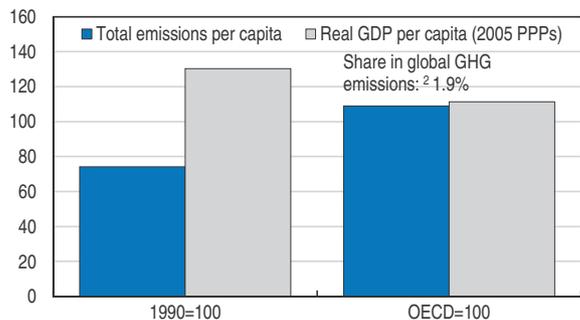
Reform areas no longer considered a priority in Going for Growth

For Germany, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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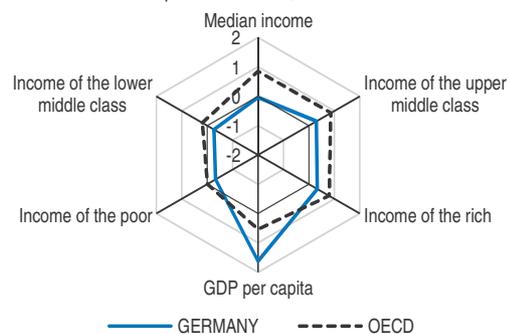
Beyond GDP per capita: Other policy objectives

A. Emissions per capita have fallen since 1990
Average 2008-12¹



B. GDP growth has not trickled down to households and real incomes have declined among the poor³

Average annual growth rate in real household disposable income, 2005-11⁴



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Germany.

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

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