

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 wedge on labour income

The average tax wedge on two-earner households and single earners is 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 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 subsidies to the business sector and tax expenditures.

Improve 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, together with loans with income contingent repayments, in tertiary education to all states.

Reduce regulatory barriers to competition

Regulations of professional services are relatively restrictive. Qualification-related entry requirements still reduce competition in the crafts. Administrative burdens on enterprises are excessive. 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 terminating free public health insurance for non-working spouses.