

GERMANY

The GDP per capita gap relative to the upper half of OECD countries has narrowed somewhat since the mid-2000s, but a labour utilisation gap remains. Reforms of the short-time work scheme during the crisis have prevented excessive layoffs. Work incentives are also being strengthened in 2011 by phasing out the temporary supplementary benefit paid to certain long-term unemployed. However, further structural reforms are still needed in the following areas.

Priorities supported by indicators

Reduce barriers to competition in the services sector

Barriers to entrepreneurship, notably in professional services, limit competition and thereby hamper productivity growth.

Actions taken: The statutory fee schedule for architects has been adjusted and simplified in 2009.

Recommendations: Simplify the license and permit system. Ease conduct regulations for professional services, for example, by further reducing restrictions on the co-operation between professions, further liberalising prices and reassessing the need for restrictions on advertising. Simplify entry conditions into professional services by rethinking compulsory chamber membership, reducing the number of activities over which certain professions have exclusive rights and lowering education requirements for full chamber membership.

Improve tertiary education outcomes

Tertiary attainment rates remain low among younger age cohorts, hampering human capital and productivity growth.

Actions taken: University entry requirements based on professional qualifications were harmonised across states (*Länder*) in 2009.

Recommendations: Postpone early tracking and strengthen language support to immigrant students throughout their schooling. Allow all universities greater autonomy to select students and set tuition fees and develop income contingent student loans in those states that have not yet done so.

Reduce tax wedges on labour income and shift taxation to property and consumption taxes

The labour tax wedge remains high, mostly reflecting high social contributions, reducing labour utilisation. More broadly, taxation is skewed towards more distortive labour and capital taxes that harm employment and productivity.

Actions taken: Unemployment insurance contributions were temporarily lowered between 2009 and the beginning of 2011 as a fiscal stimulus measure. Health insurance contributions were also reduced in 2009, but will be increased again in 2011.

Recommendations: Lower social security contributions financed through efficiency gains in the health care system and/or by some shifting of the tax burden towards property and consumption (by phasing out some of the reduced VAT rates).

Other key priorities

Reduce impediments to full-time female labour participation

The average working hours of employed mothers as well as childless married women are significantly below the OECD average, partly due to fiscal disincentives and a lack of childcare facilities.

Actions taken: The government is continuing plans to sharply increase the number of childcare places until 2013.

Recommendations: Reduce the average effective tax rates on labour income of second earners by replacing the joint income assessment of spouses with an individual tax assessment and by introducing health care contributions for non-working spouses.

Ease job protection for regular workers

Protection of regular work contracts remains strict and the gap vis-à-vis the lower level of protection for non-regular workers is rising, risking the development of a dual labour market.

Actions taken: No action taken.

Recommendations: Lower the protection of regular work contracts by shortening the period before a dismissal notice can be given and by reforming the regulation of compensation in case of dismissals for economic reasons.

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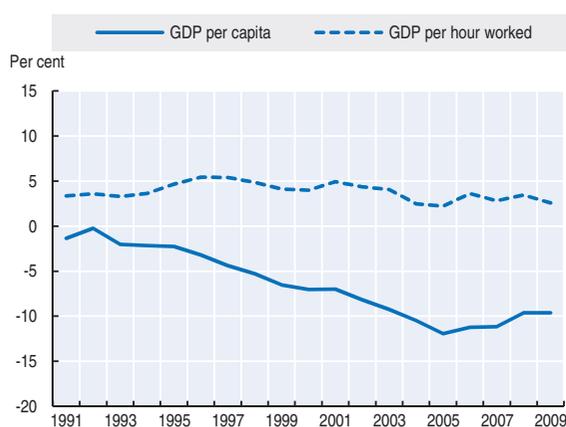
Structural indicators

Average annual trend growth rates, per cent

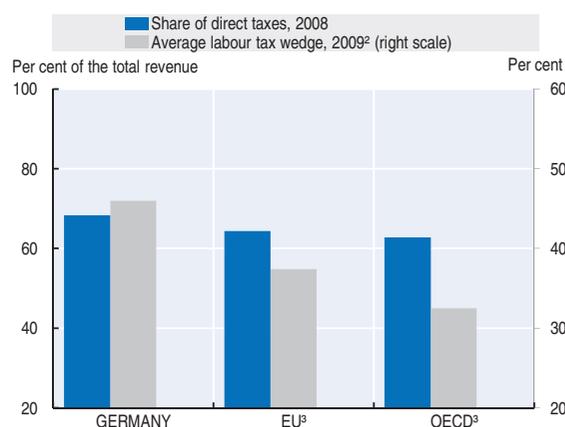
	1999-2009	1999-2004	2004-09
GDP per capita	1.3	1.3	1.4
Labour utilisation	-0.2	-0.4	0.0
of which: Employment rate	0.3	0.2	0.3
Average hours	-0.5	-0.6	-0.3
Labour productivity	1.5	1.6	1.4
of which: Capital intensity	0.7	0.8	0.6
Multifactor productivity	0.8	0.8	0.8

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.

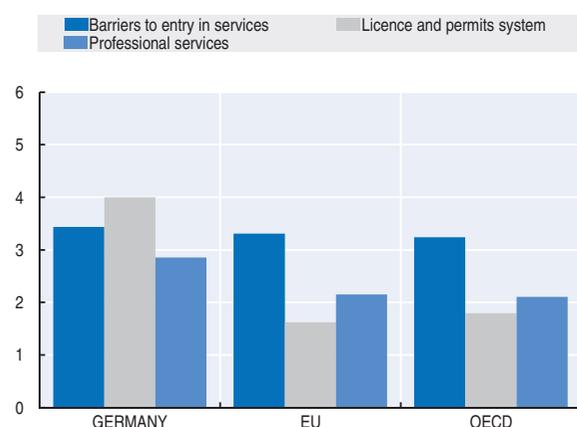
A. The GDP per capita gap is persistent
Gap to the upper half of OECD countries¹



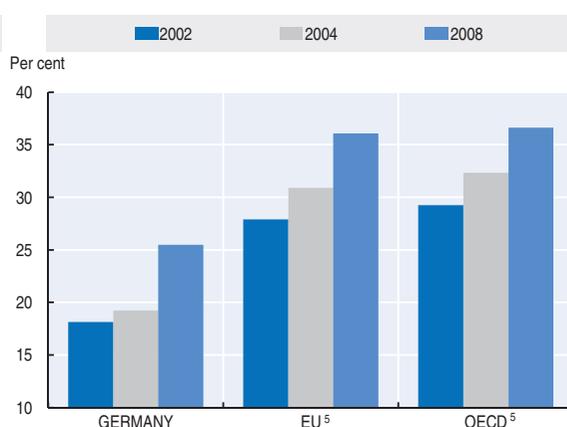
B. Taxation is skewed towards direct taxes



C. Barriers to entrepreneurship remain high, 2008
Index scale of 0-6 from least to most restrictive



D. Tertiary education graduation rates are relatively low⁴



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Single person with low earnings and no child (low earnings refer to two-thirds of average earnings). Percentage of total labour compensation.
3. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
4. First-time graduation rates for single year of age at tertiary-type A level.
5. Average of European countries in the OECD. EU and OECD averages exclude Belgium, Chile, Estonia, France and Korea.

Source: Chart A: OECD, National Accounts and OECD Outlook No. 88 Databases; Chart B: OECD, Taxing Wages and Tax Databases; Chart C: OECD, Product Market Regulation Database; Chart D: OECD (2010), Education at a Glance.

StatLink  <http://dx.doi.org/10.1787/888932373856>