

## GERMANY

### Priorities supported by indicators

#### **Reduce tax wedges on labour income and shift taxation to property and consumption taxes (2007, 2009, 2011)**

**Recommendations:** Raise work incentives by reducing the labour tax wedge, notably social security contributions, and shift taxation towards less distortive taxes.

**Actions taken:** Unemployment insurance contributions have been lowered over 2007-09 (with the last decrease partly reversed in 2011), partly financed through higher consumption taxes. The standard VAT rate was raised in 2007, but reduced VAT rates remain widespread. Environmental taxation was increased in 2009 by introducing a CO<sub>2</sub> element in the vehicle tax.

#### **Reduce regulatory barriers to competition (2007, 2009, 2011)**

**Recommendations:** Lower barriers to entrepreneurship, notably in professional services, and facilitate non-discriminatory entry into network industries.

**Actions taken:** Architects' fees regulation has been adjusted and simplified in 2009. Competition in network industries has been fostered *inter alia* through the introduction of incentive-based regulation in the electricity and gas market in 2009, and the government envisages liberalising inter-city bus services in 2011.

#### **Improve education outcomes (2007, 2009, 2011)**

**Recommendations:** Strengthen early childhood education, make schools and teachers more accountable for outcomes, reduce tracking in the school system, and allow all universities greater autonomy.

**Actions taken:** External exit exams were introduced in 2007 and 2008 in some *Länder*. Some *Länder* have lowered the number of school tracks in 2009 and 2010. Autonomy was raised with more universities selecting students and further *Länder* introducing tuition fees in 2007.

### Other key priorities

#### **Reduce impediments to full-time female labour force participation (2007, 2009, 2011)**

**Recommendations:** Improve incentives for women to work full time by lowering the marginal tax burden for second earners and by increasing the supply of childcare places and full-day schooling.

**Actions taken:** It was decided in 2007 to increase the supply of public childcare places with the aim to provide access for around 35% of all children by 2013. Full-day schooling is also being expanded.

#### **Ease job protection for regular workers (2009, 2011)**

**Recommendations:** Relax employment protection legislation for regular workers for instance by shortening the period before dismissal notice can be given and by reducing the notice period for workers with a long tenure and by reforming the procedures for dismissal for economic reasons.

**Actions taken:** No action taken.

#### **Improve the placement of long-term unemployed into jobs (2007)**

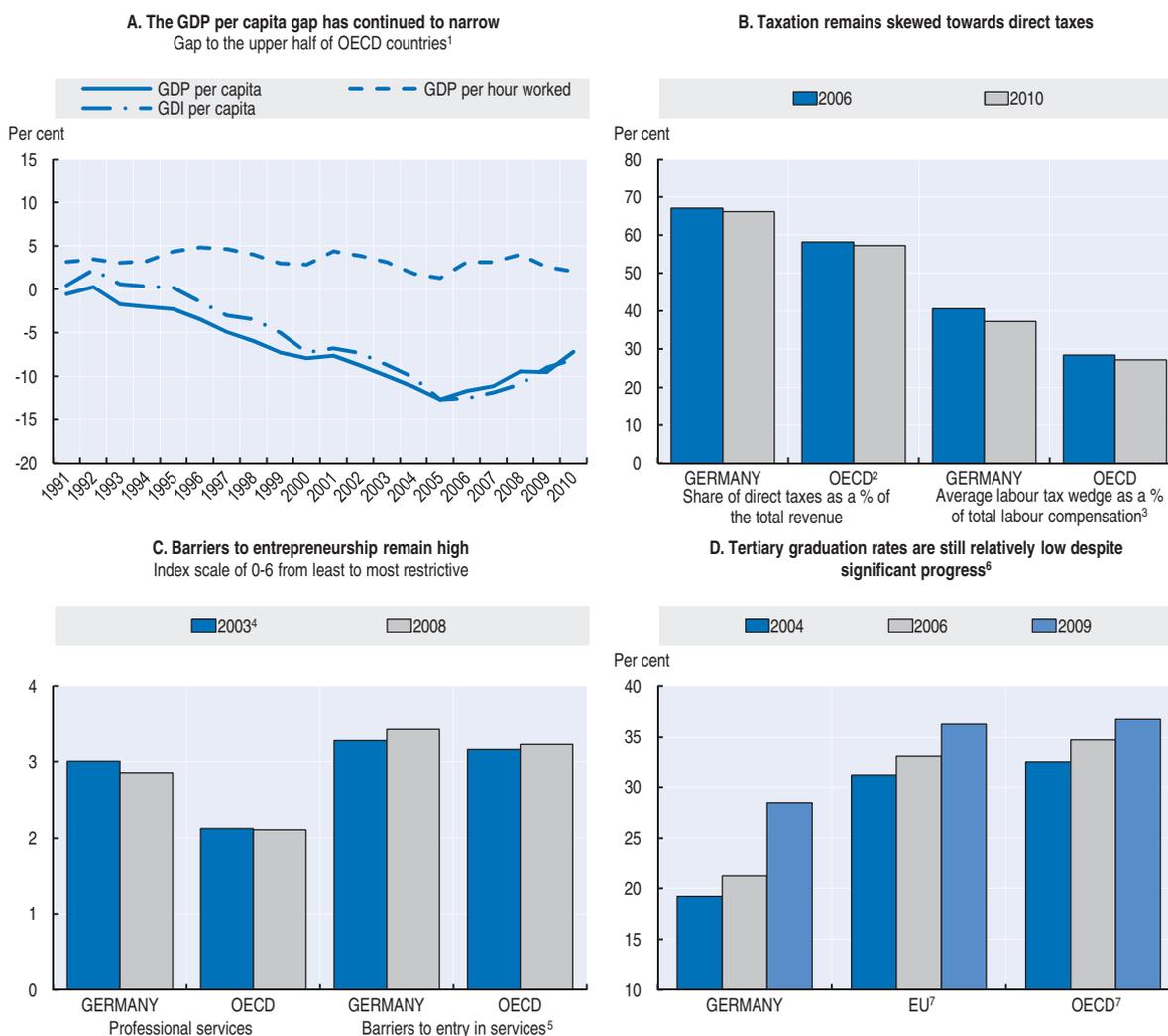
**Recommendations:** Clarify administrative responsibilities related to job placement between municipalities and the Federal Employment Agency, revisit the level and strengthen the conditionality of benefits.

**Actions taken:** The supplementary benefit layer between unemployment insurance and the basic benefit for jobseekers is being phased out in 2011 in the context of fiscal consolidation. Administrative responsibilities for placing recipients of the basic jobseeker benefit have been clarified in 2011.

## GERMANY

- The GDP per capita gap relative to the upper half of OECD countries has narrowed since 2005, partly reversing the widening since the mid-1990s. The remaining gap reflects exclusively weaker labour utilisation while Germany is ranking among the best performing OECD countries in terms of GDP per hour worked, notwithstanding some recent decline.
- Among key priority areas, progress has been made in improving education outcomes, bringing the long-term unemployed back into work and strengthening work incentives; less has been achieved in the areas of product market competition and employment protection legislation.
- In other areas, reforms of the short-time work scheme during the crisis have prevented excessive layoffs.

## Performance and policy indicators



1. 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).
2. Data refer to 2009 for Australia, the Netherlands and Poland.
3. 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 the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
4. OECD average excludes Chile, Estonia, Israel and Slovenia.
5. Barriers to entry in services cover barriers to entry in professional services and retail trade.
6. First-time graduation rates for single year of age at type A level.
7. 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 Economic Outlook No. 90 Databases; Chart B: OECD, Taxing Wages and Tax Databases; Chart C: OECD, Product Market Regulation Database; Chart D: OECD (2011), Education at a Glance.

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