

GERMANY

The gap in GDP per capita vis-à-vis best performing countries remains wide. Long-term unemployment is still high and hours worked per employed worker are low.

Policy priorities

Reduce average tax wedges on labour income

Challenge and recommendations: To reduce the high tax wedge on both two-earner households and single earners, it was recommended that social charges be lowered and the reductions be financed by cutting tax expenditures and subsidies as well as by increasing the efficiency of government expenditure.

Actions taken: The government used a significant proportion of revenues from the 2007 VAT increase to lower social charges. Subsidies and tax expenditures have been reduced further. A health care reform has been agreed which introduces more competition into the system and is expected to produce efficiency gains and thus increase the scope to reduce tax wedges.

Improve the efficiency of the education system

Challenge and recommendations: Educational results for a large share of 15-year-olds are weak, and the tertiary graduation rate is low. It was recommended that performance of all schools be evaluated against nation-wide standards, schools be given more autonomy and the large degree of segmentation of the school system be reduced, and participation in early childhood education be increased. It was also recommended that universities be given more autonomy, including in setting tuition fees, and their funding be made more outcome-oriented.

Actions taken: Almost all of the states that did not have standardised secondary school exit exams have introduced them. National education standards and evaluation instruments to ensure compliance also have been agreed.

Reduce regulatory barriers to competition

Challenge and recommendations: Product market competition is weak in professional services, retailing, most network industries, as well as in crafts. It was recommended that the liberal professions be deregulated, by abolishing compulsory membership in associations, and non-discriminatory entry in the network industries be improved. It was also recommended that restrictions on large-scale outlets in retailing be relaxed, qualification-related entry requirements in the crafts be abolished and overall administrative burdens on enterprises be reduced.

Actions taken: No action has been taken at the federal level, but further progress has been made in some states in auditing existing and new regulations to reduce the burden on business.

Improve job placement of the long-term unemployed

Challenge and recommendations: As long-term unemployment remains high, it was recommended that administrative responsibilities related to job placement be assigned more effectively, that conditionality of benefit receipt on willingness to take up work be strengthened and that benefit levels be revisited.

Actions taken: No action taken since the 2005 reform, which tightened sanctions significantly.

Reduce impediments to full-time female labour force participation

Challenge and recommendations: Female labour force participation is high but often with very short working time. It was recommended that access to childcare facilities and full-day schooling be improved and the tax burden on second earners be lowered (by introducing a health insurance charge for the coverage of non-working spouses).

Actions taken: The government is providing subsidies for a sharp increase in the number of childcare places, with the share of children in childcare facilities expected to treble to 35% by 2013. The government is also promoting full-day schools, and the proportion of children in such schools is rising quickly, albeit from a low base.