

## GERMANY

For more than ten years, economic growth in Germany has been weak, resulting in a widening of the gap in GDP per capita vis-à-vis the United States and several EU countries.

### Policy priorities

#### **Reduce average tax wedge on labour income**

**Challenge and recommendations:** To foster employment creation, it was recommended that room be created for cuts in statutory income tax rates and social charges by reducing tax expenditures and by better targeting unemployment-related transfers. It was also recommended that the pension system be made more actuarially fair, and that the scope for selective contracting (between insurers and providers) and managed care in the health care system be widened.

**Actions taken:** Efforts have been concentrated on implementing earlier reforms in the areas of unemployment benefits and health insurance. New legislation came into force cutting a number of significant subsidies and tax concessions such as support for residential construction and investments in certain funds. The contribution rate for unemployment insurance is planned to be reduced by 2 percentage points, but the VAT rate is scheduled to increase by 3 percentage points.

#### **Further liberalise professional services**

**Challenge and recommendations:** In order to increase competition among professional services, it was recommended that binding fee schedules for architects and engineers be eliminated, that deregulation in other professions be considered and that compulsory contributions to professional associations be phased out.

**Actions taken:** Liberalisation of remuneration for architects and engineers is intended.

#### **Improve secondary education achievements**

**Challenge and recommendations:** To raise the performance of secondary education, it was recommended that nation-wide standards for educational attainment be set and that adherence to them be regularly monitored. This would involve giving schools more freedom in determining their own programmes for improving learning outcomes and linking public funding of schools to educational outcomes.

**Actions taken:** Nation-wide educational standards have been agreed by the states in some fields. Following earlier decisions, language training for students with immigrant background is being stepped up.

#### **Reduce disincentives to work at older ages**

**Challenge and recommendations:** To foster labour force participation of older persons, it was recommended that preferential benefit eligibility conditions for older workers be abolished and that subsidies for working time reductions of this group be cut.

**Actions taken:** Reductions in the duration of unemployment insurance benefits for older unemployed were implemented in February 2006. The government plans an increase in the statutory retirement age from 65 to 67 to be phased in over a long period.

#### **Increase competition in government procurement.**

**Challenge and recommendations:** In order to increase the efficiency of government procurement, it was recommended that calls for tender be issued more widely, rules across the states be simplified and the role of business associations in setting these rules be eliminated.

**Actions taken:** Legislation is under review.