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The time has come to tackle red tape

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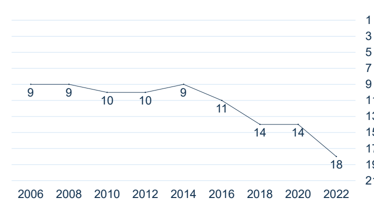
The government must urgently address structural problems

The first year in government of Berlin's “traffic light” coalition was overshadowed by the war in Ukraine. The focus had understandably been on crisis management. It was imperative to prevent a gas shortage with devastating consequences for the economy and society. Averting this worst-case scenario has been achieved. The pandemic has also lost its terror. Normality is spreading everywhere.

Germany loses ground as a business location

Into this relative calm a disturbing study was published last month on Germany slipping several places in a list ranking 21 countries by their relative attractiveness as a business location, especially for the famed small and medium-sized “Mittelstand” firms, often family owned. This is worrying, as those firms constitute the backbone of the country’s economy. The result is startling. Germany has long since ceased to play in the Champions League of business locations.

Ranking of Germany as a business location



Source: Foundation of German Family Businesses, LBBW Research. Until 2014 comparison of 16 countries, from 2016 of 21 countries.

Other countries are making progress in providing excellent infrastructure, digitalization and tax reforms. Germany, however, is treading water. And that's even a charitable interpretation. In fact, in previous installments of the same study Germany at least occupied a place in the middle of the pack until the mid-2010s. Not exhilarating, but still. In the latest edition, Germany ranks only 18th out of 21. In other words, in acute risk of relegation to second-tier status. Only Hungary, Spain and Italy rank behind.

> Taxes, labor, energy and red tape: Germany scores poorly

Where the bottlenecks lie

The identified vulnerabilities are manifold:

1. When it comes to taxes (Germany ranked 20th), the tax burden is comparatively high and the system overly complex.
2. Regulation and bureaucracy (ranked 19) make life unnecessarily difficult for companies.
3. Labor availability (ranked 19) is perceived as particularly limiting. As I showed recently, this is only going to get worse.
4. Energy costs (rank 18) are higher than elsewhere.

Of course, the methodology underlying such rankings is always contestable and to a certain extent subjective. But the results are consistent with the anecdotes that entrepreneurs keep telling me in conversations.

The ball is now in the politicians' court

It may be true that a considerable part of the bureaucratic overload originates in Brussels. But this affects all EU countries equally. It does not explain Germany's fall in the rankings. Homemade factors also play a role.

The projects of the coalition agreement must now be tackled vigorously

For the time being we have left behind the acute crisis phase. Now policymakers must clear their heads to tackle the structural challenges. Too much has been left undone for too long under Ms. Merkel's "grand "coalition government.

The coalition agreement of the new-ish "traffic light" coalition is actually quite encouraging. The very first chapter deals with "Modern State, Digital Awakening and Innovations". The goals for streamlining the bureaucracy are spot on. But now all of this actually needs to happen. Any procrastination would lead us right into the next general election campaign phase.

The risks of the pandemic and gas shortages have been averted. Now there are no more excuses that could stand in the way of working through the coalition's sound ideas. Let's go!