Foundation for
Family Businesses

Country Index for Family Businesses

Competitiveness ranking, 8th edition summary

Publication Details

Published by:

Stiftung Familienunternehmen
Prinzregentenstraße 50
80538 Munich
Telephone: +49 (0) 89 / 12 76 400 02
Telefax: +49 (0) 89 / 12 76 400 09
Email: info@familienunternehmen.de
www.familienunternehmen.de

Prepared by:

ZEW – Leibniz-Zentrum für Europäische
Wirtschaftsforschung GmbH
Prof. Dr. Friedrich Heinemann
L 7,1
68161 Mannheim

Calculus Consult
Dr. Margit Kraus
Stuifenstraße 4
73207 Plochingen

Verena Dutt
Leonie Fischer
Fynn Minkus

Quotation (full acknowledgement):

Stiftung Familienunternehmen (ed.): Country Index for Family Businesses – Competitiveness ranking, 8th edition summary, prepared by ZEW – Leibniz Centre for European Economic Research Mannheim and Calculus Consult, Munich 2021, www.familienunternehmen.de

Executive Summary

As the 2020 edition of the Country Index for Family Businesses goes to press, the Coronavirus pandemic is the dominant issue of public concern – and understandably so, given its wide-reaching effects on the economy, society and human health. Our index compares industrialized countries in terms of their attractiveness as locations for business investment. While we focus on conditions prior to the crisis, our analysis sheds important light on the extent to which various European and non-European countries will be in a position to ward off the long-term effects of the pandemic.

In Germany, this publication is also appearing at the start of an important election year. The next German government will face a complex economic policy environment. Germany's companies have been battered by the financial effects of the pandemic. Yet they must also master the challenges posed by the digital transformation and the clean-energy transition. Thanks to the fiscal consolidation efforts of recent years, the German government has the financial leeway to engage in robust stimulus spending. Once the crisis has been surmounted, however, the challenge will be to scale back government intervention to a level that is compatible with market principles and fiscal sustainability. In this vein, the 2020 index provides helpful guidance with a view to policies that should be pursued after the crisis to ensure Germany remains internationally attractive as a location for doing business.

Our index places a particular focus on business conditions that are propitious for companies in which a family has majority control (regardless of the company's legal form, or whether management functions are directly exercised by family members). Furthermore, the index is mainly directed at industrial companies with annual revenues of at least EUR 100 million, for whom the establishment of a foreign subsidiary is a realistic option. The index assesses the domestic environment for doing business in six different categories: namely, Taxation; Labour Costs, Productivity & Human Capital; Regulation; Financing; Infrastructure and Institutions; and Energy. Since the 2018 edition, the country index has covered the following 21 countries: Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, the Netherlands, Poland, Portugal, Spain, Sweden, Switzerland, the Slovak Republic, the UK and the US. The ranking for each country is calculated in a multi-step process. First, we define relevant and meaningful indicators for each of the six categories identified above. The point values for these indicators are aggregated to develop a ranking for each category. The six categories are then aggregated to generate an overall index value. Furthermore, we provide a large amount of information on the business environment of the selected countries in a comprehensive appendix. In this way, the index also serves as an up-to-date compendium of information on conditions for doing business in key industrialized countries.

The 2020 index includes for the first time a comparative analysis of healthcare systems. The quality and affordability of the domestic healthcare system is an important factor when making a foreign investment decision – and not just during a pandemic. Using a range of parameters, our special section on healthcare systems quantifies inputs (resource use), outputs (health services provided) and outcomes (in terms of the health status of the population), thus allowing the strengths and weaknesses of healthcare systems to be compared. As a percentage of GDP, German healthcare spending is high by international standards. However, Germany has above-average health outputs and, to some extent, above-average outcomes, while other countries with high spending levels, such as the US, lag behind in various indicators, including doctors per capita and hospital beds.

The Country Index for Family Businesses

The Country Index for Family Businesses is calibrated to produce scores between 0 and 100. A higher score indicates a more favourable assessment of the conditions for family businesses.

Table 1: The Country Index for Family Businesses

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
USA	64.19	1	64.15	2
United Kingdom	61.33	2	65.93	1
Netherlands	61.00	3	63.90	3
Canada	60.49	4	62.76	4
Denmark	60.42	5	59.36	7
Switzerland	60.25	6	61.55	5
Sweden	58.63	7	60.54	6
Ireland	58.48	8	57.53	9
Austria	57.58	9	56.61	10
Finland	57.13	10	58.40	8
Czech Republic	56.38	11	55.92	11
Poland	51.97	12	53.39	12
Belgium	51.94	13	51.89	13
Hungary	50.83	14	50.39	15
Portugal	50.11	15	48.73	16
Slovakia	49.65	16	48.63	17
Germany	**49.36**	**17**	**50.97**	**14**
France	46.17	18	45.84	20
Spain	45.25	19	45.92	19
Japan	45.18	20	47.78	18
Italy	37.88	21	37.76	21

Source: Calculations by ZEW and Calculus Consult

The 2020 ranking is led by the US, followed by the UK and the Netherlands. The US tops the list mainly due to outstanding performance in the categories of regulation, financing and energy. US performance is also very good in the category of labour costs, productivity & human capital. A clear weakness for the US is taxation. While Trump's tax reform was beneficial, the US still trails most countries in this area. Ranking second overall, the UK achieves its highest scores in the category of regulation and in the category of labour costs, productivity & human capital. In the areas of taxation and energy, by contrast, UK performance is average. The Netherlands achieve a third-place finish primarily due to an outstanding performance in the area of infrastructure and institutions. With the exception of a below-average ranking in financing, all other category results for the Netherlands are only slightly above average.

Since the 2018 index, Germany has slipped from 14th to 17th place. However, this decline in rank should not be overinterpreted, as the point totals for the countries between 12th and 17th place are extremely close. Germany ranks first in the category of financing – by far its strongest suit as a location for business. In the category of infrastructure and institutions, Germany also scores well, with indicator totals ranging between average and very good. By contrast, Germany scores average to slightly below average in the categories of regulation and energy. Furthermore, Germany has significant weaknesses in labour costs, productivity & human capital, and in the category of taxation. Germany's slip to 17th place is mainly attributable to a lower score for infrastructure and institutions. However, Germany has also lost ground – albeit to a lesser extent – in taxes and in labour costs, productivity & human capital. Germany's significantly improved score in the area of energy was not sufficient to offset the declines registered elsewhere.

The bottom three positions in the ranking are held by Spain, Japan and Italy. Italy once again comes in last, achieving the lowest point score in three of six categories and the second lowest point score in a further category. A middling total is attained by Italy solely in the area of taxation. Japan's poor ranking is mainly attributable to very poor results for taxation and energy. On the other hand, Japan achieves good results in regulation and in infrastructure and institutions. Spain's main weaknesses are evident in the categories of regulation and financing. Yet Spain also ranks below average in taxes; in labour costs, productivity & human capital; and in infrastructure and institutions. Only in energy does Spain achieve a very good point total.

In relation to the 2018 index, Portugal, Denmark and the Slovak Republic show the greatest improvement, each scoring more than one point higher in the cumulative total. The UK, by contrast, displays the largest point loss, predominantly due to the economic and political uncertainties of Brexit.

Taxes

In the international investment decisions of family businesses, tax regimes understandably play a major role. This index focuses on several dimensions of taxation: specifically, the taxes assessed on (1) domestic business activities, and (2) inheritance. In addition, we also consider the taxes assessed on cross-border business activities, as well as the complexity of the tax system as a whole, in order to obtain a more complete picture of the conditions for doing business.

Table 2: Taxation

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
Slovakia	85.24	1	83.97	1
Hungary	81.91	2	82.52	3
Czech Republic	81.03	3	83.53	2
Poland	75.52	4	80.44	4
Sweden	69.98	5	76.29	5
Austria	66.98	6	69.73	6
Switzerland	66.05	7	69.62	7
Portugal	64.28	8	64.45	9
Netherlands	61.52	9	68.13	8
Italy	60.69	10	62.79	12
Finland	60.66	11	64.04	10
United Kingdom	59.00	12	63.06	11
Canada	58.21	13	61.91	13
Belgium	57.79	14	60.57	14
Ireland	53.72	15	58.39	15
Denmark	46.90	16	53.98	16
Spain	46.42	17	49.99	17
USA	41.02	18	36.78	19
France	38.60	19	37.82	18
Germany	**28.12**	**20**	**30.47**	**20**
Japan	15.07	21	19.72	21

Source: Calculations by ZEW

We use the European Tax Analyzer, a simulation model developed by ZEW and the University of Mannheim, to estimate the tax burden on domestic business activities. Our calculations take into account the specific characteristics of family businesses as well as the main factors relevant to investment decisions at the company and shareholder levels. We consider the resulting indicator – which illustrates the extent to which profits are diminished by taxation

– to be the most important metric for company decisions concerning where to locate their business activities.

In estimating inheritance taxes, our calculations presuppose the circumstance of "unprepared inheritance". Accordingly, asset transfer upon death serves as the basis for our tax burden estimations. To calculate taxes on bequeathed assets, we use another calculation model developed by ZEW, which takes into account the specific characteristics of family businesses as well as all regulations relevant to inheritance taxation.

To compare tax conditions for companies conducting cross-border activities, we conduct a predominantly qualitative comparison that considers rules governing foreign direct investment at home and abroad. The individual tax factors are evaluated, weighted according to their importance, and then combined to generate the indicator for cross-border business activity.

The final indicator under the category of taxes seeks to capture the general complexity of each country's tax system. Complexity – a recurring theme in tax policy discussions – represents a significant cost factor for family businesses, not only in terms of expenses for compliance, but also in terms of business planning decisions. In this connection, we examine the time burden to meet tax obligations as an indicator of tax-system complexity.

Table 2 summarizes our results for the category of taxation. The total is calibrated to fall between 0 and 100, like the other categories and the overall index value. A higher score means better taxation conditions for family businesses.

The Slovak Republic leads the ranking, followed by Hungary, the Czech Republic and Poland. While the Eastern European countries included in the index are characterized by low levels of taxation on corporate profits and inheritance, they rank at the bottom of the indicators for cross-border business activities and complexity. Last place in the ranking is occupied by Japan, due to its high levels of taxation on corporate profits and inheritance.

Once again ranking in second to last place – in part due to the inheritance tax reform of 2016 – Germany exhibits major deficits in the category of taxation. In recent years, the index rankings have been influenced first and foremost by measures in various countries to cut corporate income tax rates while also widening the tax base. In this year's index, we see the effects of tax reforms in individual countries (e.g. Belgium, France and the US) in combination with harmonisation efforts at the EU level. Against the backdrop of the Coronavirus pandemic, we anticipate near-term adjustments to tax regimes. The precise nature of these adjustments and their effects on international tax competition remain to be seen, however.

Labour Costs, Productivity & Human Capital

This category considers aspects of the labour market that are important to family businesses – specifically, labour costs, labour productivity and the availability and quality of human capital.

Table 3: Labour Costs, Productivity & Human Capital

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
Canada	65.31	1	64.91	1
Ireland	63.99	2	64.01	2
USA	62.27	3	60.95	4
United Kingdom	61.58	4	61.61	3
Finland	56.87	5	58.54	6
Denmark	54.41	6	60.37	5
Japan	54.10	7	56.03	7
Sweden	54.02	8	54.28	8
Netherlands	51.35	9	54.14	9
Belgium	50.64	10	52.18	11
Poland	49.94	11	46.81	15
Switzerland	49.76	12	53.52	10
Portugal	49.11	13	48.49	13
France	48.15	14	48.59	12
Austria	44.97	15	47.75	14
Spain	43.73	16	46.27	16
Czech Republic	41.03	17	40.10	18
Germany	**39.97**	**18**	**42.84**	**17**
Hungary	38.97	19	39.44	19
Slovakia	36.30	20	36.36	21
Italy	34.08	21	36.65	20

Source: Calculations by Calculus Consult

Aside from labour costs and productivity, the domestic availability of qualified workers is an important factor that influences the investment decisions of family businesses. Against this backdrop, we consider investment in education, as well as educational outcomes. Investment in education is measured in terms of the sum of public and private expenditure on education as a share of GDP. Educational outcomes, by contrast, are estimated based on the PISA educational assessment scores, which shed light on the competency of the domestic workforce. Finally, we consider the percentage of the labour force with a tertiary degree as a metric for the availability of highly skilled workers.

Canada currently leads the ranking in the category of labour costs, productivity & human capital. Canada's performance is attributable to outstanding scores in all three indicators for education, including in particular its high percentage of university graduates and excellent PISA results. By contrast, Canada scored average in labour costs and in productivity. Ireland comes in second place overall, thanks to excellent performance in productivity growth, continued average performance in the area of labour costs, very good results in the latest PISA study, and a high share of population with tertiary attainment. The US and the UK place 3rd and 4th, respectively.

Germany, by contrast, has slipped from 17th to 18th place in the 2020 ranking. Germany's worsening position is attributable first and foremost to higher labour costs and lower PISA scores – although the latter indicator remains a source of at least medium strength, in combination high labour productivity. Hungary, the Slovak Republic and Italy are at the bottom of the ranking for this category, in all three cases due to weak educational performance.

Regulation

This category seeks to measure the regulatory hurdles that family businesses face when engaging in various activities, from managing workers and conducting foreign trade to launching new subsidiaries. With a view to labour market regulations, we consider rules surrounding worker dismissal as well as downtimes attributable to strikes and lockdowns. In the area of foreign trade, we consider tariffs and other barriers. Tariffs primarily take the form of customs duties. Other potential barriers to trade include quotas, indirect protectionist measures, and non-trade-related regulatory restrictions, such as environmental or safety standards.

Table 4: Regulation

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
USA	82.72	1	76.96	2
Ireland	76.06	2	80.89	1
Canada	71.02	3	66.87	4
United Kingdom	63.69	4	74.30	3
Japan	61.15	5	65.30	5
Portugal	59.65	6	55.62	7
Austria	59.54	7	50.60	11
Netherlands	59.14	8	56.31	6
Denmark	54.46	9	51.52	9
Finland	53.13	10	52.66	8
Sweden	53.10	11	50.96	10
Germany	**49.74**	**12**	**49.72**	**12**
Hungary	49.18	13	44.41	14
Switzerland	49.09	14	44.32	15
France	47.09	15	42.17	17
Slovakia	46.36	16	40.22	18
Poland	46.07	17	48.55	13
Belgium	45.30	18	42.89	16
Czech Republic	41.89	19	33.98	20
Spain	41.30	20	38.17	19
Italy	39.14	21	33.91	21

Source: Calculations by Calculus Consult

We quantify red tape in terms of "regulatory intensity", which estimates the time and expense involved in launching a corporation. With regard to the impact of the regulatory environment on day-to-day operations, we gather information on the effort required to comply with regulations, communicate with public authorities, and obtain licences and permits. Last, we also consider workers' rights with a view to various issues, including the required size of works councils; mandatory paid leave for worker representatives to carry out their duties; the right to paid training; and the right of workers to participate in business decisions (e.g. through mandatory representation on executive boards). The positive effects of "co-determination" (that is, of cooperation between management and workers in decision-making) are given due consideration via worker productivity and the number of strike days, among other factors.

The US ranks first in this category, thanks to excellent scores in the indicators for foreign trade, for worker participation, and for the labour market and collective bargaining. By contrast, the US only achieves middling results in the indicators for corporate start-ups and for the regulation of day-to-day activities.

Ireland and Canada place 2^{nd} and 3^{rd}, respectively. Ireland achieves its highest scores in corporate start-ups and in worker participation. In foreign trade, Ireland's performance is less admirable, however. Among the surveyed countries, Canada ranks first in corporate start-ups and in worker participation, and also performs extremely well in the regulation of day-to-day activities. By contrast, Canada performs slightly below average in the indicator for the labour market and collective bargaining, and ranks third to last in foreign trade.

In 2020, Germany once again took 12^{th} place, achieving its best results in the regulation of day-to-day activities. Germany's performance is relatively poor in the area of corporate start-ups and in worker participation.

Financing

In addition to assessing the ability of family businesses to obtain outside capital for investments and to finance routine operations, this category seeks to measure the stability of a country's currency and financial system. The importance of a sound financial system is particularly evident against the back-drop of the Coronavirus pandemic. Indeed, the ability of countries to weather the crisis will depend in no small part on the financial resilience of their public, private and banking sectors.

We compare financial sector maturity and credit availability by examining the volume of lending to companies and households as a share of GDP. We also consider the susceptibility of each country's banking system to crisis by considering Tier 1 capital and non-performing loans in relation to the banking sector's overall risk weighted assets and total gross loans, respectively. As a further measure of susceptibility to crisis, we consider lending standards and bankruptcy law. Clearly, weaknesses in the design or enforcement of bankruptcy law that prevent creditors from recouping losses can considerably curtail lending volumes. Finally, we consider the ability of lenders to access information about creditworthiness, including the scope and quality of such information. Better access to information about the creditworthiness of borrowers enables more reliable lending decisions, thus improving the ability of family businesses to obtain financing.

To consider potential instabilities related to excessive debt, we also examine debt levels in the public and private sectors. Finally, we consider the long-term sovereign debt ratings issued by international rating agencies, as these ratings are a composite measure of banking-sector stability, macroeconomic performance and public-sector debt sustainability. Sovereign debt ratings have an additional dimension of salience in that they directly impact the cost of capital in financial markets, and, by extension, define the room for fiscal manoeuvre enjoyed by the government. Last but not least, sovereign debt ratings are regularly reviewed and adjusted, making them a highly current metric.

Germany leads in the category of financing, moving up one position to displace the US at the top of the list. Germany's excellent point score in this category is attributable to top rankings for the indicators of credit information, debt, and sovereign ratings. For the indicators of credit market and creditor protection, by contrast, Germany only achieves average scores.

Germany's rise to the top of the list is predominantly attributable to declining performance by the US. While the US leads the indicators for creditor protection and credit information, its soaring debt levels – which were high even prior to the outbreak of the pandemic – leads to very poor performance in the area of debt. For Canada, as well, high debt levels are a source of weakness. Canada's third place finish is attributable to strong point values for creditor protection, credit information and sovereign ratings. Portugal and Italy, for their part, trail behind by a large margin, predominantly due to weak credit market indicators in combination with poor sovereign debt ratings.

Table 5: Financing

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
Germany	**75.93**	**1**	**74.95**	**2**
USA	72.42	2	75.02	1
Canada	71.94	3	71.01	3
Switzerland	67.94	4	67.26	4
Czech Republic	67.35	5	64.31	6
United Kingdom	65.06	6	64.38	5
Poland	60.39	7	59.48	8
Austria	60.17	8	56.58	12
Denmark	58.98	9	57.85	9
Sweden	57.96	10	60.09	7
Slovakia	56.89	11	57.32	11
Finland	56.78	12	57.43	10
Ireland	55.85	13	48.29	14
Netherlands	49.90	14	48.91	13
Hungary	46.24	15	41.24	15
Japan	44.12	16	40.47	16
Belgium	44.04	17	35.65	19
France	41.34	18	40.28	17
Spain	41.31	19	39.01	18
Portugal	22.48	20	17.69	21
Italy	20.13	21	21.44	20

Source: Calculations by Calculus Consult

Infrastructure and Institutions

This category assesses the quality and availability of transportation and internet infrastructure, two factors crucial for conducting business. In this category we also consider relevant legal and institutional factors, including rule of law and political stability, and the prevalence of corruption.

Table 6: Infrastructure and Institutions

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
Netherlands	79.26	1	91.13	1
Denmark	77.93	2	66.96	4
Switzerland	77.66	3	83.96	2
Finland	62.42	4	66.11	5
Japan	57.73	5	58.12	8
United Kingdom	56.87	6	71.23	3
USA	54.87	7	62.24	7
Germany	**52.69**	**8**	**62.64**	**6**
Austria	51.35	9	51.48	13
Belgium	46.52	10	51.97	12
Sweden	45.71	11	55.55	10
Ireland	45.08	12	52.51	11
Canada	42.30	13	56.15	9
France	34.74	14	39.63	14
Portugal	33.29	15	37.78	16
Czech Republic	32.07	16	38.57	15
Spain	28.08	17	30.50	17
Hungary	12.12	18	16.89	18
Poland	10.75	19	13.75	19
Italy	10.00	20	12.29	20
Slovakia	9.53	21	9.75	21

Source: Calculations by Calculus Consult

In the area of transportation infrastructure, we draw on data concerning the scope and quality of road, rail and airport infrastructure. Clearly, well-developed and reliable transport systems are essential not only for the transport of goods, but also for business travel. Inadequate transportation infrastructure can cause long travel times, thus giving rise to additional expenses. We also consider the quality of internet infrastructure, including the availability of secure servers that use encryption technology and the performance of broadband networks.

With a view to the institutional environment, we assess the reliability of regulatory regimes, the prevalence of public-sector corruption, and crime/political stability. We devote particular attention to the legal system's handling of material and intellectual property rights, as well as to the prevalence of corruption in politics, public administration and the judiciary. Yet another factor taken into consideration is crime/political stability, an issue that has unfortunately gained renewed significance in recent years.

The Netherlands, Denmark and Switzerland lead this category by a clear margin. The Netherlands achieve excellent point values in transportation and internet infrastructure, and rule of law. Denmark ranks first in internet infrastructure and corruption control, but also has very good point totals in the indicators of rule of law and crime/political stability. Switzerland, for its part, achieves the best results in the areas of transport infrastructure, rule of law and crime/political stability.

In the current ranking, Germany slides from 6th to 8th place. Germany achieves its highest score in transportation infrastructure, and worst scores in rule of law and crime/political stability. In comparison to 2018, Germany experiences declining point values in all indicators aside from corruption control; point declines are particularly evident in internet infrastructure and rule of law. Hungary, Poland, Italy and the Slovak Republic occupy the bottom of the ranking, displaying poor scores on all indicators.

Energy

This category examines the reliability and affordability of the energy system for family businesses. Policy measures designed to promote the adoption of renewables are particularly salient in this area. Yet political developments and instabilities, especially in energy exporting countries, can also influence costs, and, in extreme cases, culminate in supply problems. This study uses a discrete indicator for the power sector, for in contrast to other forms of energy, electricity is needed on a continuous basis and can only be substituted or stored to a limited extent. Accordingly, we examine the cost of electricity for industrial consumers separately from costs for other forms of energy (e.g. natural gas for heating; petroleum for transport).

We examine security of supply in the power sector by comparing statistics gathered by power grid regulators and other institutions. While natural gas, petroleum and coal are easier to store and transport, import dependency on these forms of energy can represent a considerable risk factor, particularly when exporting countries are susceptible to instability or tend to use their energy resources as a geopolitical bargaining chip.

Finally, this category also takes into account the challenges posed by climate change. In this connection, we examine the extent to which countries are fulfilling their carbon reduction commitments. The discrepancy between current and avowed reductions furnishes an estimate of the energy system adaptation that will be required in the future. In this regard, we assume that the future likelihood of energy policy measures that negatively impact costs and security of supply increases in direct relation to the current shortfall in target fulfilment.

The US once again ranks first in the category for energy, primarily due to low energy prices in combination with low fossil fuel import risks. On the other hand, the US ranks close to the bottom in security of supply for electricity and in the achievement of climate targets. Second place in the ranking is occupied by Denmark, thanks to affordable electricity prices, high security of supply for electricity and low fossil fuel import risks.

In the current ranking, Germany places 14th, improving its position by two places. Germany performs best in security of supply for electricity, and worst in the area of electricity prices. Germany’s improved position in the ranking is primarily attributable to lower energy prices in combination with better fulfilment of emission reduction targets. Japan lands at the bottom of the list, trailing the other countries by a clear margin, predominantly due to poor performance in energy costs and climate protection.

Table 7: Energy

Country	2020 Point Value	2020 Ranking	2018 Point Value	2018 Ranking
USA	76.83	1	80.48	1
Denmark	76.36	2	68.38	6
Czech Republic	71.65	3	72.13	2
Spain	71.22	4	71.45	3
France	69.16	5	69.36	5
Sweden	68.90	6	63.44	10
Hungary	68.43	7	69.94	4
Belgium	66.73	8	66.61	7
Netherlands	66.60	9	66.28	8
Portugal	65.72	10	61.98	11
Poland	62.64	11	64.20	9
United Kingdom	62.11	12	61.25	13
Austria	61.11	13	61.61	12
Germany	**58.27**	**14**	**53.60**	**16**
Italy	56.06	15	51.95	19
Slovakia	54.49	16	55.84	14
Ireland	53.94	17	35.85	21
Switzerland	52.71	18	52.13	17
Finland	52.47	19	50.65	20
Canada	52.39	20	54.95	15
Japan	44.83	21	52.07	18

Source: Calculations by Calculus Consult

Summary of Findings

The low indebtedness of Germany's public and private sectors is a major source of strength for its attractiveness as a business location. Maintaining these comparatively low debt levels despite the financial impacts of the pandemic will be a key challenge moving forward. To be sure, deficit spending designed to ameliorate the crisis is sensible economic policy and does not stand in contradiction to Germany's constitutional debt brake, as the rule permits larger deficits in the event of natural disasters or other emergency situations. However, once the crisis has abated, a rapid reduction in deficit spending would be desirable. Indeed, Germany's attractiveness as a location for business would suffer if the debt brake's credibility is damaged.

Given the losses suffered by the private sector during the pandemic, we must recall that one goal of wise tax policy is to undergird the financial health of firms, in part by enabling capital formation. Once the crisis has been surmounted, Germany's long-term competitiveness will require a comprehensive reform of its tax system.

Since 2006 our assessments of German infrastructure have continually worsened; this dynamic has damaged the country's reputation as a location for doing business. Accordingly, policymakers should prioritize infrastructure spending during the next legislative period.

In the area of regulation Germany also occupies a middling position in the ranking. In this connection, we must ensure that the regulatory intervention required to battle the pandemic does not culminate in a permanent wave of new rules that further restricts the freedom of action of companies and their workers.

While Germany has made some progress in the area of energy since 2018, it nevertheless ranks in the bottom half of the index. Germany's improved position in the 2020 index is predominantly attributable to progress in achieving emission reductions. However, the fact remains that by international standards, companies in Germany face extremely high energy costs.

Another key finding to emerge from the 2020 index is that Brexit has been a major liability for the UK. This unpleasant news affirms the fact that Britain has a long road ahead if it wishes to regain its economic dynamism, as promised by Brexit advocates.

Over the coming years the EU's Next Generation EU plan will devote significant resources to countries acutely impacted by the pandemic. Our findings spotlight where spending should be prioritized by countries such as Italy and Spain: In addition to poor infrastructure, common deficits in Southern Europe include weak educational systems in combination with the over-regulation of product and labour markets.

The countries of Eastern Europe included in this index continue to show greater progress than the countries of Southern Europe, not only in the area of financial stability, but also in the area of infrastructure (not least due to generous development aid from the EU). However, the 2020 index shows a further decline in the quality of Eastern European institutions. As our country index shows, weakening of the rule of law not only undermines democracy, but can also damage a country's reputation as a location for business investment.

Foundation for Family Businesses
(Stiftung Familienunternehmen)

Prinzregentenstrasse 50
80538 Munich
Germany

Phone + 49 (0) 89 / 12 76 400 02
Fax + 49 (0) 89 / 12 76 400 09
Email info@familienunternehmen.de

www.familienunternehmen.de/en