Foundation for
Family Businesses

Country Index for Family Businesses

Competitiveness ranking, 9th edition summary

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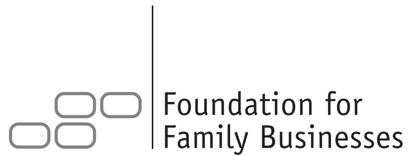

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Executive summary

As this ninth edition of the Country Index for Family Businesses goes to press, the German economy – after largely overcoming the systemic shock inflicted by the coronavirus pandemic – is facing yet another serious crisis. Russia's invasion of Ukraine and the resulting loss of Russian energy imports has had a far-reaching impact, particularly in European countries such as Germany and Austria and eastern European EU member states, which had been heavily dependent on Russian gas. This latest extensive survey of locational factors thus also examines, in view of this crisis, if other advantages European countries have as a business location may be able to compensate for the disadvantages they exhibit in the area of energy.

The Country Index for Family Businesses is geared in particular to the requirements of companies which, regardless of the legal form they take, are majority-controlled by a family – though they may be managed by persons outside that family. It focuses mainly on (industrial-sector) enterprises with revenues of at least €100 million and for which the transfer of operations to a foreign location is a realistic option. The study assesses locational criteria under the following headings: taxes; labour costs, productivity & human capital; regulation; financing; infrastructure and institutions; and energy. Since the 2018 edition, the following 21 countries have been compared to compile the index: Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, the United Kingdom and the United States. The ratings are arrived at in a series of steps. First, we define relevant and meaningful indicators for each of the six criteria. A sub-index for the quality of each location is then drawn up on the basis of these indicators. Finally, the six sub-indices are aggregated to create the overall Country Index for Family Businesses. A comprehensive annex covering each of these six criteria provides a wealth of information and figures relating to all the countries surveyed. The Country Index thus serves as an up-to-date compendium of a broad spectrum of relevant business conditions in these countries.

The Country Index for Family Businesses

The Country Index for Family Businesses is calibrated to produce scores between 0 and 100. The higher the score, the more favourable the conditions for family businesses are considered to be.

Table 1: The Country Index for Family Businesses

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
USA	62.59	1	62.88	1
Canada	62.09	2	61.42	3
Sweden	61.36	3	59.48	7
Switzerland	61.13	4	62.46	2
Denmark	58.39	5	60.78	5
Ireland	58.29	6	59.66	6
United Kingdom	57.52	7	59.04	8
Finland	56.72	8	57.47	10
Netherlands	56.17	9	61.32	4
Poland	53.57	10	52.94	12
Czech Republic	53.55	11	56.36	11
Belgium	52.87	12	51.84	13
Austria	52.23	13	58.23	9
Portugal	51.17	14	50.60	15
Slovakia	49.71	15	49.06	16
Japan	49.55	16	45.25	20
France	48.21	17	47.51	18
Germany	**47.93**	**18**	**50.76**	**14**
Hungary	47.52	19	48.91	17
Spain	43.07	20	45.83	19
Italy	39.68	21	38.72	21

Source: Calculations by ZEW and Calculus Consult

The United States leads the latest ranking table, followed by Canada, Sweden and Switzerland. The US's top position is mainly thanks to excellent scores in the areas of regulation and energy. It also ranks highly in the sub-indices for financing and for labour costs, productivity & human capital. Taxation is a clear weak spot for the US. While second-placed Canada turns in very high scores for regulation and financing along with labour costs, productivity & human capital, it drops down into the bottom half of the sub-indices for energy, taxation, and infrastructure and institutions. In third place, Sweden achieves its best scores in relation to taxation and energy, with only average results for the other four factors. Switzerland owes its fourth place

primarily to its outstanding position in relation to infrastructure and institutions. While also performing relatively well in the sub-indices for taxes and financing, Switzerland achieves only below-average scores under the other three criteria.

Germany has slipped to eighteenth in these latest rankings, down four places from the 2020 Country Index. As the scores for the countries ranked 14th to 19th are all very close, however, Germany's drop in ranking places should not be overinterpreted. By far Germany's strongest suit as a location for business is financing, where it tops the rankings. It also achieves comparatively good results in the infrastructure and institutions sub-index. By contrast, it performs relatively weakly in the areas of energy, taxation, labour costs, productivity & human capital, and especially badly in relation to regulation. Germany's slippage in the rankings is mainly attributable to its lower scores in the regulation and energy sub-indices. To a lesser extent Germany also lost ground in the sub-indices for financing and for labour costs, productivity & human capital. Its slightly improved score in the taxes sub-index was not enough to offset the loss of points here.

Trailing in below Germany at the bottom of the table are Hungary, Spain and Italy. Hungary scored worst for its weak performance in relation to infrastructure and institutions. It also ranks well below average in the sub-indices for financing and for labour costs, productivity & human capital. Spain's weak areas are regulation, financing, and infrastructure and institutions, where it achieves only below-average scores. It performs well in relation to energy, however. As in the previous 2020 index, Italy once again occupies the bottom rung in the rankings. This is due to coming last and second-last respectively in the sub-indices for labour costs, productivity & human capital and for financing, and to its very poor performance in relation to regulation and also infrastructure and institutions.

In terms of points in comparison with the 2020 index, Japan added more than four points to its total and Sweden also added almost two points. Compared with two years ago, Japan showed much improved results for the criteria of regulation, infrastructure and institutions, and especially for energy. Sweden owes its increase in overall points chiefly to a greatly improved score for taxation. Austria and the Netherlands recorded the largest point losses since the last survey, in both cases mainly as a result of lower scores for regulation and energy.

Taxes

Tax regimes are an important factor for family businesses in deciding where to locate. Our survey focuses on taxation of the domestic business activities of companies along with inheritance taxes. We also consider taxes assessed on cross-border business activities and the complexity of the overall tax system to obtain a more complete picture of the taxation aspect of the conditions for operating a business in a country.

The sub-indicator for the taxation of domestic business activity is based on effective average tax burdens and represents the extent to which the financial gains of a profitable investment are reduced by taxes. This metric is a significant factor when companies decide where to locate their business operations. Tax burdens are calculated using the European Tax Analyzer, a simulation model developed by ZEW and the University of Mannheim. This tool allows us to take into account the specific economic characteristics of family businesses and the main taxation factors relevant to investment decisions at the company and shareholder levels.

In estimating effective inheritance tax burdens, our calculations assume the circumstances of "unprepared succession". The survey accordingly focuses on the taxation of asset transfers on death. A calculation model developed by ZEW can also be used to determine the inheritance tax burden indicator which takes into account the specific characteristics of family businesses as well as all the regulations relevant to inheritance taxes.

Tax conditions for companies with cross-border activities are assessed on the basis of a primarily qualitative comparison of selected regulations relevant to inward or outward foreign direct investment. After scoring and weighting according to their importance, the individual taxation factors are then combined to arrive at the cross-border business activity indicator.

Another sub-indicator seeks to capture the complexity of the respective tax system. Complexity – a recurring theme in tax policy discussions – represents a significant cost factor for family-owned enterprises, not only in terms of the costs of ensuring compliance, but also with regard to business planning decisions. The time and effort involved for businesses to ensure compliance with taxation law is used as an indicator of the complexity of the tax system.

The taxes sub-index summarises the findings for this aspect for the countries surveyed. As with the overall Country Index and all other sub-indices in this study, this sub-index is based on normalised values of the underlying data series calibrated to produce scores between 0 and 100. A higher score indicates better taxation conditions.

Table 2: Taxes sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
Slovakia	85.24	1	85.24	1
Czech Republic	81.37	2	81.04	2
Poland	76.89	3	75.55	3
Sweden	76.42	4	70.03	4
Hungary	69.44	5	68.77	5
Switzerland	66.42	6	66.12	7
Portugal	64.94	7	64.34	8
Austria	63.35	8	66.88	6
Belgium	62.41	9	57.94	14
Italy	62.36	10	61.42	10
Finland	61.52	11	60.72	11
Netherlands	60.97	12	61.57	9
United Kingdom	60.34	13	59.08	12
Canada	59.50	14	58.30	13
Ireland	55.20	15	53.82	15
Denmark	49.19	16	46.99	16
Spain	44.34	17	46.52	17
France	43.40	18	38.72	19
USA	41.55	19	41.09	18
Germany	**33.35**	**20**	**28.14**	**20**
Japan	16.05	21	15.07	21

Source: ZEW calculations

Slovakia leads the table, followed by the Czech Republic, Poland, Sweden and Hungary. While eastern European countries have low levels of taxation on domestic business activities and inheritance taxes, they are at the bottom end of the table when it comes to the sub-indicators for cross-border business activities and complexity. Japan occupies the bottom rung of the ranking table due to its high levels of taxation on domestic business activities and inheritance taxes.

Over the years Germany has slipped ever further down the rankings and, as in the previous 2020 survey, again finds itself in second to last place. While recent years have seen index rankings influenced first and foremost by measures to cut corporate income tax rates and broaden the tax base, this year's Country Index above all reflects the effects of tax reforms in individual countries (Belgium and Sweden) in tandem with harmonisation efforts at the European level. In view of discussions surrounding the introduction of a global minimum corporate tax rate

and the ongoing economic uncertainties, the extent to which tax regimes are affected, and consequently the impact on international tax competition, remains to be seen.

Labour costs, productivity & human capital

The labour costs, productivity & human capital sub-index considers the most important location aspects of the labour market for family businesses. The Country Index for Family Businesses examines not only costs and output, but also the quality of labour available. The availability of skilled workers is an important locational factor for family businesses which is gaining greater political prominence due to the increasing problems posed by skills shortages. The Country Index addresses this aspect by considering a country's overall investment in education and its educational outcomes. Investment in education is measured on the basis of the sum of public and private expenditure on education as a share of GDP. Educational outcomes are based on PISA educational assessment scores which are an indication of the general educational attainment of the labour force and consequently the upskilling potential of trainees and young people entering the labour market in future. Finally, the percentage of the labour force possessing a tertiary degree is used as a metric for the availability of highly skilled personnel.

Ireland tops this year's sub-index for labour costs, productivity & human capital. Despite extremely unfavourable scores for education spending, Ireland knocked previous leader Canada off the top spot in the table because the other two educational indicators showed outstanding growth in its workforce productivity while labour costs remained average. Canada, now in second place, owes its high ranking to excellent scores for all three educational indicators, especially the large percentage of highly skilled people in the labour force and excellent PISA results. Coming in just behind with scores similar to these top two, the United Kingdom and US lie in third and fourth place respectively.

Compared with the 2020 index, Germany has dropped two places down the rankings to nineteenth. As in previous years, Germany's unfavourable position in this sub-index is attributable first and foremost to high labour costs, low investment in education and fewer highly skilled people in the labour force. Its results in terms of PISA scores and workforce productivity are more favourable. The ratio of labour costs to productivity still remains a disadvantageous locational factor for Germany, however. Ranked even lower than Germany in relation to education are Slovakia and Italy, with both these countries being very weak in this area.

Table 3: Labour costs, productivity & human capital sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
Ireland	65.11	1	64.60	2
Canada	63.78	2	65.22	1
United Kingdom	62.33	3	63.48	3
USA	62.22	4	62.15	4
Japan	55.77	5	53.66	8
Finland	54.55	6	58.46	5
Sweden	52.85	7	55.82	6
Denmark	51.40	8	55.73	7
Poland	51.33	9	49.90	12
Belgium	50.61	10	52.05	10
Netherlands	49.59	11	52.18	9
Switzerland	49.17	12	50.71	11
Portugal	49.11	13	49.41	13
France	47.22	14	48.98	14
Czech Republic	44.39	15	40.57	18
Spain	43.95	16	44.34	16
Austria	43.30	17	45.82	15
Hungary	40.12	18	38.54	19
Germany	**39.89**	**19**	**40.87**	**17**
Slovakia	38.23	20	36.10	20
Italy	34.54	21	34.61	21

Source: Calculations by Calculus Consult

Regulation

This sub-index assesses the regulatory hurdles faced by family businesses in their day-to-day operations, in the labour market, in conducting foreign trade and when establishing new business locations. With regard to labour market regulations, we consider the rules relating to the dismissal of employees and to downtimes caused by strikes and lockdowns. In the area of foreign trade, we assess the restriction of free trade by tariffs and other non-tariff trade barriers. Tariff barriers are predominantly customs duties, while non-tariff trade barriers include quotas and indirect protectionist measures as well as regulations that are not directly aimed at foreign trade, but which nevertheless impact it indirectly. In particular, the latter include environmental, health and social standards.

The "regulatory intensity" for corporate start-ups is calculated on the basis of how much time and expense is involved in setting up a stock corporation. With regard to the impact of the regulatory environment on day-to-day operations, we gather information on the costs of compliance and communication with public bodies, along with the risks involved, including the risks and impacts of any special regulations issued to tackle the coronavirus pandemic.

Finally, in the area of employee participation rights, we consider the rules governing the size of works councils, the release of employee representatives from work and their rights to resources such as rooms and paid training, along with the extent of representatives' rights to participate in operational and corporate decision-making. Information about the participation rights of employee representatives on executive and supervisory boards is also taken into account. The positive effects of employee participation for industrial peace and productivity are also included in the Country Index in the form of indicators for productivity and the number of strike days, among other factors.

With the lowest regulatory intensity, the US continues to top the regulation sub-index in the current rankings. This is above all due to the US's excellent scores in the areas of labour market and collective-bargaining law, foreign trade, and employee participation in operational decision-making. Canada and Ireland are placed second and third respectively. While Canada ranks highest for corporate start-ups and employee participation, it ranks only second-last for foreign trade. Ireland's best positions in the rankings are likewise for corporate start-ups and employee participation, and its weakest area is also foreign trade.

Germany currently stands in nineteenth place in this latest sub-index, having dropped five places in the rankings since the previous country index. It achieves its best scores for labour market and collective-bargaining law, where it lies in the middle of the countries surveyed. Its scores for corporate start-ups, regulatory burdens for day-to-day business, and especially

for employee participation are comparatively poor, however. As a result, Germany counts as one of the three most heavily regulated countries in the present survey. Spain and the Czech Republic rank even lower than Germany in this latest table.

Table 4: Regulation sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
USA	81.32	1	82.72	1
Canada	72.48	2	71.46	3
Ireland	70.56	3	76.99	2
Japan	67.75	4	62.13	5
United Kingdom	65.36	5	65.04	4
Denmark	59.02	6	55.26	9
Poland	55.89	7	52.57	12
Portugal	55.37	8	59.26	8
Sweden	55.08	9	53.51	10
Finland	53.83	10	53.22	11
France	50.23	11	47.38	17
Hungary	49.72	12	50.26	15
Belgium	48.82	13	45.00	18
Slovakia	45.72	14	47.70	16
Switzerland	45.09	15	50.59	13
Netherlands	44.58	16	59.43	7
Austria	43.69	17	60.68	6
Italy	39.60	18	39.48	21
Germany	**36.30**	**19**	**50.56**	**14**
Spain	35.15	20	41.89	20
Czech Republic	34.61	21	42.10	19

Source: Calculations by Calculus Consult

Financing

The financing sub-index addresses the requirements of family businesses for raising the funds needed for both day-to-day operations and investment, along with the frameworks in place to ensure a stable financial system. Particularly given the current crisis and financial market jitters in the wake of Russia's invasion of Ukraine coupled with the ongoing coronavirus pandemic, the importance of a sound financial environment is clear: the financial strength of states, banks and companies is one of the most important stabilising factors for ensuring resilience.

We quantify the ability of family businesses to access inexpensive finance on the basis of the overall volume of loans to non-banks and metrics relating to the availability of credit to family-owned enterprises. The risk exposure of the banking system is captured by the equity ratio of the banks and the ratio of non-performing loans to total loans. The legislation around corporate lending, particularly in relation to bankruptcy and collateral law, represents another important lending factor. Ineffective bankruptcy law and inefficient judicial processes for the recovery of loans can be severely detrimental to lending. Finally, we also consider the ability of potential lenders to access creditworthiness information, including the scope and quality of such information. The better a borrower's creditworthiness, the more confidently lenders can make lending decisions, thus enabling family businesses to obtain bank loans more readily.

To factor in potential instabilities resulting from excessive debt, we also examine public and private sector indebtedness. Finally, we consider the long-term sovereign debt ratings issued by leading rating agencies to take account of the interplay between banking crises, macroeconomic performance and public sector debt. These ratings are based not only on the current level of public sector debt, but also on the development of financial systems and overall economic growth. Sovereign debt ratings also impact public finances as their upward or downward movement influences the cost of capital on financial markets and, by extension, defines the degree of fiscal leeway available to governments to boost their respective economies. Last but not least, these ratings are regularly adjusted, making them a relatively up-to-date metric.

Germany again leads the rankings for the financing sub-index in this latest edition of the Country Index. Among the countries surveyed, Germany comes first for both the credit information and sovereign ratings indicators. It also achieves very good scores in relation to debt. In second and third place respectively, Canada and the US achieve very good to excellent scores in relation to creditor protection, credit information and sovereign ratings, but well below average for indebtedness. Switzerland is also among the leaders when it comes to the credit market and sovereign ratings indicators, but otherwise likewise has below-average scores, especially for the debt indicator.

Table 5: Financing sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
Germany	**72.42**	**1**	**75.97**	**1**
Canada	70.57	2	68.97	2
USA	68.11	3	64.69	4
Switzerland	66.63	4	65.49	3
Ireland	61.42	5	56.10	10
Poland	59.22	6	59.20	8
Czech Republic	59.12	7	62.63	5
Denmark	57.84	8	58.66	9
United Kingdom	57.57	9	59.71	7
Austria	57.46	10	61.69	6
Sweden	55.33	11	53.32	11
Finland	52.50	12	52.28	12
Slovakia	49.58	13	51.28	13
Netherlands	44.82	14	44.40	15
Belgium	39.85	15	40.95	16
Hungary	38.64	16	45.26	14
France	38.41	17	38.98	17
Spain	37.17	18	38.09	18
Japan	35.57	19	34.78	19
Italy	21.88	20	20.98	20
Portugal	20.27	21	19.03	21

Source: Calculations by Calculus Consult

Italy and Portugal again trail well behind at the bottom of the table, predominantly due to weak performance regarding credit market, creditor protection and sovereign ratings, and in Italy's case also a poor score for indebtedness.

Infrastructure and institutions

The infrastructure and institutions sub-index assesses two factors: the strength of business-relevant infrastructure, and aspects of legal and institutional frameworks. Business-relevant infrastructure encompasses the transport infrastructure plus the information and communications infrastructure. With regard to legal and institutional frameworks, indicators for aspects such as legal certainty, anti-corruption measures, criminality and political stability are examined in detail.

In the area of transport infrastructure, we draw on data relating to the scope and quality of road, rail and airport infrastructure. Well-developed and reliable transport systems are clearly essential not only for transporting goods, but also for business travel and shipment times. Inadequate transport links can give rise to additional costs resulting from long waiting times, diversions and delays or breakdowns. As well as the reach of broadband networks, the information and communications infrastructure indicator covers the performance of the internet and the availability of secure servers using encryption technology.

With regard to the institutional environment, besides looking at the independence and efficiency of the legal system generally, in particular we assess the substance and enforceability of material and intellectual property rights, along with the prevalence of corruption in politics, administrative bodies and the judiciary. Other location factors which have unfortunately gained renewed significance in recent years are political stability and the extent of criminality in society.

Switzerland, the Netherlands and Denmark lead the current rankings in the infrastructure and institutions sub-index by a clear margin. With the exception of anti-corruption measures, Switzerland comes either first or second for all the sub-indicators here. The Netherlands also achieves very good to excellent scores for nearly all the sub-indicators as well. Denmark takes the top spot for both the information and communications infrastructure and anti-corruption measures sub-indicators, but achieves only average scores for transport infrastructure, criminality and political stability.

Germany's sixth place in this latest sub-index is unchanged from the 2020 Country Index. It achieves its best scores for transport infrastructure and information and communications infrastructure, and scores worst in relation to the legal certainty, criminality and political stability sub-indicators. Hungary, Italy, Slovakia and Poland occupy the bottom end of the rankings, displaying poor scores all round.

Table 6: Infrastructure and institutions sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
Switzerland	87.23	1	89.62	1
Netherlands	82.28	2	85.89	2
Denmark	78.25	3	77.57	3
Finland	67.57	4	65.74	4
Japan	66.04	5	63.74	5
Germany	**61.89**	**6**	**62.11**	**6**
Sweden	54.76	7	52.68	9
Austria	52.44	8	53.18	8
Belgium	50.86	9	48.06	11
USA	50.80	10	53.39	7
Canada	49.76	11	49.60	10
France	46.95	12	44.61	14
United Kingdom	46.40	13	44.89	13
Ireland	45.81	14	47.13	12
Portugal	42.53	15	40.50	15
Czech Republic	36.39	16	37.36	16
Spain	35.03	17	33.92	17
Hungary	19.73	18	16.71	18
Italy	18.24	19	13.96	19
Slovakia	13.15	20	9.98	21
Poland	10.93	21	10.17	20

Source: Calculations by Calculus Consult

Energy

This sub-index examines the affordability and continuity of the energy supply for family businesses. In the wake of the energy crisis triggered by the Russian invasion of Ukraine, these factors have become hugely important. The hybrid war waged by Russia and the concomitant shortage of Russian supplies of gas and oil in particular, but also coal, has resulted not only in huge price hikes for these forms of energy, but a complete breakdown in supplies has become a very real risk for the first time. The energy supply situation is further exacerbated by the worsening climate crisis which constrains the options for replacing these forms of energy with lignite, which although more readily available has higher CO2 emissions. It also affects the operability of nuclear power stations which, as was particularly evident in France during the summer of 2022, are greatly dependent on cooling water during droughts and heatwaves. The shortages and higher costs of energy over the past year have in some cases created an existential challenge for family businesses. Following these dramatic developments, in the summer of 2022 the Foundation for Family Businesses published a special study on the impact of the energy crisis on prices and import risks as a supplement to the German Country Index ("Die Energiekrise im Standortvergleich: Preiseffekte und Importrisiken").

The Country Index uses a discrete indicator for electricity supply as, in contrast to other forms of energy, electricity is needed on a virtually continuous basis and can only be substituted or stored to a very limited extent. Accordingly, we examine the cost of electricity for industrial consumers separately from costs for other forms of energy used by family businesses, in particular, for heating, transport, and the like. We factor in the security of the electricity supply by assessing comparable metrics collated and published by grid operators and regulators. Unlike electricity, it is easier to store natural gas, oil or coal. However, as the current crisis clearly demonstrates, import dependencies for these forms of energy can still constitute a considerable risk factor as a large number of industrialised nations are dependent on imports from politically and/or economically less stable countries. The Country Index accordingly quantifies the supply disruption risk arising from dependencies on gas, oil and coal imports.

Finally, the index also takes into account the challenges posed by climate change. For this we assess the difference between the current level of greenhouse gas emissions and the voluntary or legally binding climate targets set by the respective governments. This divergence serves as an indicator for estimating expected future adjustments in the energy sectors: the lower the present level of target attainment, the sooner we can expect energy policy measures that will impact costs and energy security and the more drastic these measures are likely to be. The climate change goals of the Paris Agreement have thus been incorporated in this edition of the Country Index for the first time.

Table 7: Energy sub-index

Country	Points 2022	Ranking 2022	Points 2020	Ranking 2020
USA	75.52	1	77.28	1
Sweden	71.15	2	69.63	5
Portugal	69.87	3	65.21	10
France	64.48	4	69.06	6
Spain	63.52	5	70.88	4
Japan	63.22	6	47.96	21
Belgium	62.54	7	66.13	9
Hungary	61.03	8	68.79	7
Czech Republic	60.80	9	71.22	3
Poland	59.38	10	63.28	11
Denmark	58.76	11	76.80	2
Slovakia	57.10	12	54.40	18
Netherlands	56.21	13	66.18	8
Canada	55.31	14	53.67	20
Switzerland	55.13	15	54.96	16
Italy	54.76	16	54.87	17
Austria	52.34	17	59.92	13
Germany	**51.89**	**18**	**56.14**	**15**
United Kingdom	50.10	19	60.30	12
Finland	49.58	20	53.87	19
Ireland	49.47	21	57.53	14

Source: Calculations by Calculus Consult

The US tops the latest rankings, primarily due to low energy prices in tandem with low import risks for oil, gas and coal. When it comes to the security of the electricity supply and the achievement of climate goals, on the other hand, the US languishes in the group at the bottom of the table in each category. Sweden takes second place thanks to a very good score for climate goals in the current index along with good security of supply, both in terms of electricity and its import risks for oil, gas and coal.

Germany comes eighteenth in this latest ranking, slipping down three places from its position in the 2020 sub-index. It achieves its highest scores in relation to electricity supply security and its poorest ones for electricity prices. Germany's position regarding climate goals and energy import risk is likewise unfavourable. Standing even lower than Germany in the latest rankings are the United Kingdom, Finland and Ireland. In Ireland and the UK this is primarily

attributable to energy prices and to comparatively poor attainment of climate goals. Finland's weak position is mainly due to the high risks associated with its gas, oil and coal imports.

Addendum on inflation

This latest edition of the Country Index also contains a one-off analysis of the recent dramatic surge in inflation. This addendum seeks to cover both the near-term impacts of the sharp rise in inflation along with the long-term history of how countries succeeded in maintaining or returning to price stability in the past. Although Germany is currently experiencing high inflation, the level is not particularly remarkable compared with other countries. Furthermore, in contrast to the US, Germany's competitiveness has not as yet been weakened by inflation. As a result of its above-average inflation rates, the US has lost a great deal of ground on price competitiveness as high inflation in America is further compounded by a rise in the value of the dollar. The inflation analysis thus adds a critical counterweight to the otherwise highly positive rating of the US in the Country Index. Owing to strong upward pressure on prices and wages, this country – which has undoubtedly become much more attractive to businesses operating in energy-intensive sectors thanks to asymmetric energy price movements – is now significantly less attractive to other companies producing goods for the global market.

Summary

These findings are worrisome for Germany as a business location. There is little evidence that other favourable locational factors will be able to outweigh the growing disadvantages with respect to energy. Family businesses in Germany face higher taxes, greater regulatory burdens and higher energy costs than in most other countries. The infrastructure and quality of its institutions are still rated highly, but can no longer match the standards found in smaller, higher-performing European countries. Only the public and private finance situation in Germany may still be considered first-class.

Neither are the findings of the new index favourable for the EU as a whole. EU member states in particular have lower scores and have dropped down the rankings since the last edition published two years ago. Besides Germany, this applies in particular to Austria and the Netherlands, with only Sweden managing a significant improvement. The noticeable progress of eastern European countries in recent years has not continued in this update. As a result, the attractiveness of business locations in the EU has slipped further behind those in North America (US and Canada) and Switzerland.

These general findings underline the responsibility borne by EU politicians. With its debt-financed "Next Generation EU" coronavirus recovery package, the EU is aiming to reduce Europe's digitalisation deficit and drive decarbonisation of the economy. This opportunity must now be firmly grasped.

Recommendations can likewise be adopted in German economic policy. Germany should tackle the problem of its high regulatory burden by transforming the speedy realisation of individual infrastructure projects it managed to achieve during the crisis into best practice. The valuable work being undertaken by the federal and state Regulatory Control Councils in Germany to reduce the costs of bureaucracy should also be developed further to exert even greater pressure on government to act.

With regard to corporate taxation, high-tax Germany should not rely on international tax co-operation agreements to reduce tax competition significantly. Altering tax rates also creates a risk that competition will simply be displaced to other areas such as the tax base, for example.

With respect to labour costs, productivity and human capital, the biggest challenge is likely to be ensuring the availability of skills on the German labour market with a shrinking labour force. If Germany wishes to be a good place to operate a business, education policy must finally

tackle the causes of poor educational outcomes, which further declined during the pandemic. One promising measure is early language training for children with a migration background.

In terms of infrastructure policy, it must be acknowledged that public sector investment has been rising for some years. Here too, however, approval processes need to be speeded up to boost progress.

In relation to financial policy, Germany should be seeking to maintain its (relative) financial strength. Besides the high costs of the crisis, federal budgets are challenged above all by rampantly rising social welfare costs which threaten financial strength. Extensive extra-budgetary financial measures are now also clearly reducing fiscal transparency. Far-reaching pension and health reforms are urgently needed to create headroom in the federal budget to finance future investment in the areas of research, digital transformation, climate and education.

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