

Germany: On the podium, still below potential

Germany's 30th anniversary of the fall of Berlin Wall was celebrated last year. Reflecting back on this milestone, Germany's elites have managed to transform the country into the diverse and open economic powerhouse of Europe, with nearly a quarter of its population having an immigrant background⁶. On the other hand, there are challenges too. Asset inflation and stagnant wages might account for the discontent reflected in the rise of the far-right Alternative for Germany (AfD), which emerged top in the European Parliament election in Brandenburg and Saxony, both states in the former Communist East Germany. Moreover, the last 18 months saw the country flirt with a technical recession and confront the realization that, in terms of the 4th Industrial Revolution, a technology gap with the U.S. and China is widening. That Tesla was at one point more valuable than all German automotive companies combined is telling⁷. Voices in Germany Inc. have started to plead for protectionist measures – are elites afraid of competing with Chinese rivals?

The EQx Index nevertheless acknowledges German inclusivity and modernity, and ranks it 3rd overall. The youth of today's Germany have good reason to feel optimistic about their future, demonstrated tangibly by ranking 3rd in *Youth unemployment* (YUN, iv.12) and 8th in *School life expectancy* (EDU, iii.7). One ranking sure to capture attention is the 2nd place score of Germany's *Covid-19 safety* (COV, iii.7) Indicator, earning international praise for agile and decisive policy responses⁸. In the Spring of 2020, Germany outshone its neighbors, with far fewer per capita deaths than most other European countries, owing to the country's earlier roll-out of extensive testing⁹. With fears of a second wave of the virus later in the year, any celebration is premature, but this is a very strong signal of Germany protecting the broad-based Value Creation potential of its citizens. The Covid-19 safety Indicator in next year's EQx will be telling.

There is not only a need for medical elites to flatten the epidemiological curve and prevent value destruction, but also for economic elites to address any recessionary curve and prevent rent seeking as the state invests in reconstruction. Germany's top score in the *Economic Complexity Index* (ECI, ii.4) indicates diversification throughout the economy, and together with earning the 6th spot in *R&D % of GDP* (RND, ii.6), we would hope that the German economy is well placed to tackle the challenge. Furthermore, the country's number 1 rank in *Expropriation risk* (EXP, i.2) underscores how Germany is an attractive place to do business. With the *Firm Dominance* (ii.5) Pillar at 7th, it seems unlikely that the German government, with its 4th place ranking in *State ownership, control and involvement in business* (SOE, iii.9), will subsidize national heroes at the cost of the majority.

Another German icon is of course Angela Merkel. Her gradual retreat as Chancellor of Germany, scheduled for 2021, naturally draws attention to the legacy she leaves behind. For a country led by the world's most powerful woman¹⁰, Germany ranks a respectable yet disappointing 9th place in the *Women's Power Index* (WPI, i.1) Indicator and 12th place in the *Gender wage gap* (GWG, iv.12). Furthermore, despite the rhetoric about climate change¹¹, Germany lags behind European peers, United Kingdom and Spain, on the *Environmental Performance Index* (EPI, iii.9) Indicator. Another fundamental issue is found at the Creative Destruction Pillar (ii.6), ranking at 14th. Here, elites might pre-empt new value creators from getting real traction, whilst disruptive value remains in the purview of incumbents, notwithstanding the promise of Berlin as a start-up capital. Germany can and might, in other words, do much better.

Diana van der Watt & Camille Zeller
University of St.Gallen

Visual 26: Germany performance overview by EQx Pillar vs overall distribution

