

Germany 2018



Total: 79.67

Political Freedom

Free and Fair Elections : 9.64

Germany but all over Europe as well - regular Bundestag (the lower house of Parliament) elections took place on the 24th of September 2017. As expected, they were administered and performed in a free and fair manner. A fear of fake news manipulation was widespread, even though such manipulations weren't able to shape public opinion to a decisive degree. Within EU and beyond, Germany is perceived as the leader when it comes to inclusive policies on migrations, a topic which also dominated months of political campaigning in the country. Years before, provincial elections saw a strong rise of the far right nationalist, populist and xenophobic party Alternative for Germany (AfD), which this time managed to enter the federal parliament, to it as the third strongest party, after the Christian Democratic Union - CDU (with its Bavarian sister party CSU) and the Social Democratic Party - SPD. Angela Merkel got the opportunity to form a new government, but this process proved as very complicated and lengthy. It took until 14th of March 2018 to form an old-new Grand Coalition government, between CDU/CSU and SPD. As SPD was reluctant at the beginning to continue governing with CDU, due to decreasing support among their core voters, Chancellor Merkel first turned to Greens and liberals (FDP - Free Democratic Party), but disagreements during coalition negotiations and subsequent withdrawal of the FDP thereof prevented her intentions and deepened a political uncertainty in the country. As pressure on all sides was rising, also on the SPD as a party which could be the only one to have prevented new, snap elections, they decided to once again form a government of a similar party fabric and to support Angela Merkel as the new-old Chancellor (i.e. PM) of Germany. Thus she has been holding that post from 2005 up until now.

Absence of Unconstitutional Veto Players : 10

There are no unconstitutional veto players in Germany. Democratically elected governments have effective power to rule the country without interference. Although there are some organized and influential interest groups such as trade unions or various business associations, they are not posing a threat to democratic procedures in the country. A debate is on whether or not too extensive written and signed coalition agreements (themselves a specific of German democracy) interfere with the constitutional rights of the elected bodies and their members (such as MPs). Corruption in the country is rare, which places Germany at a very high 12th place at the Transparency International 2017 Corruption Perception Index. Security forces are under effective civilian control. Violent extremism is the only major threat to security in the country, with several terrorist attacks occurred during the last few years.

Freedom of Press : 8

German constitution ("Basic Law") and principles of the rule of law are in place to provide and protect freedom of the media. Media scene is highly pluralistic and diverse, enabling access to wide spectrum of opinions. Although journalists or other media workers are independent in their work, physical and verbal violence and attacks became more common during the last 12 months. On several occasions journalists were targeted by far right political groups. Political party AfD often labels journalists and media as a biased source of information, spreading across society the mistrust in media. To their part, associations of journalists often accuse police and state structures for slow and inefficient prosecution of perpetrators. Unlike other Western European countries monitored by the Freedom Barometer, media ownership in Germany is diversified, with some of the biggest media operators based over there. Legal permission for overseeing an international journalist by the secret service continues to be an issue in discussions about the freedom of the press. In July 2017, numerous journalists were prevented from reporting during the G20 summit in Hamburg, by the government, on alleged security grounds.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 7.34

Judiciary in Germany might in many respects be considered as an example of a truly independent "third branch" of power. Federal Constitutional Court (as well - although to lesser extent - similar courts at the regional level) plays a key role in limiting (thus to a degree also shaping) political decisions by lawmakers or the executive, or in checking the terms of the country's accession to bilateral or international treaties. Judiciary is very active in protection of privacy of citizens and calibration of laws so as to allow just minimal and necessary intrusion therein by the law enforcement agents. As portal GAN repeats, the "judiciary is characterized by a high degree of professionalism and independence from political interference" and trusted by citizens, while corruption in courts is hardly heard of. There were a few cases in 2017 of suspected excessive use of force during violent demonstrations, or of the neglect of detainees' rights by the police, which have been investigated. As Amnesty International objects, independent complaint

mechanisms for those are still missing.

Corruption : 8.1

Classified as a country where citizens rarely encounter corruption, Germany is, similar to 2016, ranked very high – as 12th (out of 180 countries) - in the Transparency International's Corruption Perceptions Index 2017, with the same score, 81/100. Immunity against graft is very strong, due to social market economy with no excessive state intervention, developed legislation and institutions, and a sense of rule of law shared by most citizens and practiced through strong civil society with free and curious media. Rules against nepotism are very strict at all tiers of government. Public procurement, construction and huge infrastructure projects are often quoted as vulnerable to fraud, corruption or favoritism. The unfinished Berlin-Brandenburg International Airport witnessed, during its long completion, a few prison sentences against people who took, paid or attempted bribes so as to have the safety regulations circumvented. Bribery, or a (corruptive) neglect of environmental rules or other standards of quality abroad are sometimes turned a blind eye at by the government, especially in regard to big companies and employers.

Protection of Human Rights : 8.82

Germany has thoroughly transformed, from a country which had experienced centuries of autocracy, Nazi regime 1933-1945, and communism in its eastern part 1945-1989, into one of the freest countries of the world, where human rights are highly protected. Through both formal and informal (such as via political "Stiftungs") education, a notion of human rights such as life, security and safety, freedom, individual autonomy and responsibility, property, information, voluntary association, or other, is embedded in society and political culture. In some areas Germany has emerged as a "conscience of the EU", e.g. in its treatment of refugees. Not least that the gates were opened to the victims of wars or dictatorships but considerable efforts and resources were put into their integration. For instance, recent data show high level of their integration into the labor market, while there are deportations of rejected asylum-visa seekers. Opposition to such attitude has, however, also increased during the past year. There is a lot of hate speech against certain religious or ethnic groups, as well as attacks on asylum seekers (more than a thousand in 2017), while an anti-immigrant political party AfD has entered Bundestag at the last general election. Online fake news mainly target immigrants. Populism is in the rise and its narrative is highly visible in public. Meanwhile, strong efforts are put to curb human trafficking of all kinds. LGBT citizens enjoy equality in ever more fields. First same-sex marriages were concluded in October 2017. Under-representation of women in politics (in spite of a woman Chancellor), again demonstrated at general elections 2017, as well as a formidable gender pay gap, are tried to be overcome by quotas. Citizens of immigrant background are still seriously under-represented in high politics. Taken the 20th century history, various hate speech is outlawed, but critics find some limitations excessive, such as the obligation of social networks to do the censorship. The law allowing secret services to use spyware against encrypted electronic messages was criticized as too broad and has been challenged at the Federal Constitutional Court.

Economic Freedom

Security of Property Rights : 6.97

Property rights in Germany are well protected. Although legal and accounting procedures could be complex, they are generally transparent and consistent. Judiciary is efficient and independent from out-of-court influence or from the executive power. Even though court dealings are lengthy, they are both predictable and reliable, while judges are deemed as competent. Bankruptcy procedures enable very high recovery rates (above 85% of the claim), within a reasonable time frame. Insolvency cases are mostly implemented as a sale of a going concern, since this maximizes the sale value; reorganization procedures are often too costly and complex. There are specialized courts, such as for commercial, administration, labour and tax law, which provide an efficient framework in difficult cases. Out-of-court mechanisms, such as mediation or arbitration, exist and are commonly used. Court procedures use little automation in the process and judges are assigned cases randomly, yet not through an electronic system but by hand. Property registration, however, involves a string of complicated and lengthy procedures, incurring high cost due to notary fees and very high transfer tax of 6% of the property value. Property transfer could also be hurdled by preemptive rights of local municipalities. Obligatory public notary services, although inflating costs, increase security of the dealings. Foreign ownership is restricted only in several industries. These restrictions are mostly applied to transportation sector. While some restrictions stem from the EU legislation (such as those in air travel), some others, such as on foreign ownership, are justified by national security. German political leadership supports the 2017 EU legislative proposal for an EU-wide framework regarding national security threats stemming from FDI.

Size of Government: Expenditures, Taxes, and Enterprises : 5.13

Government expenditure in Germany is comparable to other continental European welfare states, standing at 44% of GDP in 2017. Unlike most European countries, Germany has been recording budget surpluses in recent years, e.g. in 2017 reaching 1.1% of GDP. This fact, coupled with economic growth, put public debt on a decreasing trajectory. It is expected that public debt level will decrease below the Maastricht criteria threshold of 60% of GDP until the end of 2018. Unemployment is well below 4%, less than half of the Euro-zone level, with only Czech Republic and Malta having better labour market results. Growth, although envisaged to reach a modest 2.5%, is inclusive and based on increasing domestic demand and exports. German government, apart from its regulatory role, is mostly not active in the economy. Majority of state-owned enterprises (SOE) are restricted mostly to public utilities operated by local governments. However, there are several important companies in which federal government has majority (train transportation) or minority stakes (post office or telecom). This is more evident in the banking sector, where the central government (e.g. in Commerzbank), but also local governments (e.g. in Spaarkasse) or federal states (e.g. in Landesbank), still hold equity in banks that encountered difficulties during the financial crisis almost a decade ago. Existing SOEs comply with the same rules as private companies, and are mostly faced by hard budget constraints. In order to sustain the overall high tax consumption, high tax rates are necessary. VAT is set at 19%, with the

reduced rate of 7%. Income tax is highly progressive, with the rates ranging from 14% to 45%. There is also a "solidarity tax" of 5.5% on both the corporate and the personal income. Coupled with local trade tax, this leads to a high effective corporate income tax 30-33%, from the nominally modest 15% tax rate. The overall labour tax wedge reaches almost 50% of the total labour costs, due to high social contributions - Belgium is the only European country with a higher labour tax wedge than Germany.

Regulation of Credit, Labour, and Business : 6.98

Regulation in Germany is overall business friendly. Starting a new business is not burdensome, nor expensive, but it requires as much as 9 procedures. However, the minimum paid-in capital of 12 500 euro is very high. On the other hand, getting electricity and obtaining a construction permit are efficient procedures, but they can incur high costs. All regulations are generally upheld. Corruption or favouritism by government officials in Germany is very rare. Although there are only 9 annual tax payments, taxation regulation proves to be very complex and burdensome for businesses, even though most tax procedures are done online. Licensing procedures remain effective obstacles to entry, limiting competition and increasing prices in many sectors of professional services, which also affects other EU nationals. Labour regulations pose another area in which there are serious constraints on private entities. Regulation of working hours is flexible, but maximum length of fixed contracts is limited to just 24 months, while redundancy regulations impose high costs. Notice periods for redundancy staff and their severance pay increase with their tenure, leading to a higher protection of more seasoned workers. The role of trade unions and especially of the workers' councils is very prominent in these procedures. A significant proportion of the work force is therefore employed through mini and midi contracts. Social dialogue is strongly developed in Germany, with strong industry-specific collective bargaining. The general minimum wage, that was for the first time introduced in 2015, is effectively 8.84 euro per hour since January 2018. The most problematic areas for doing business have recently been identified as high tax rates, complicated tax regulations and restrictive labour regulations.

Freedom to Trade Internationally : 8.69

Freedom of trade is generally respected in Germany. As one of the founding members of the European Union, Germany implements the common European trade policy. Tariffs are mostly low, with the average MFN applied rate standing at 5.1%, but tariffs on agriculture products are much higher (especially for dairy products and sugar). On the other hand, non-tariff barriers remain in place, creating obstacles to trade in a form of different technical standards and certifications. Customs administration is professional and efficient, making border and document compliance quick and its costs low. Transportation costs are also low due to excellent public transportation infrastructure, allowing for higher volume of trade: through its ports Germany serves as transit country for many other European countries. Railway transportation is still under dominant influence of SOEs, with accusations of anti-competition practices. Foreign trade is immensely important for German economy, with a high current account surplus of 8% of GDP, led by exports of manufacturing goods. Main trade partners of Germany are other European countries, such as France, Belgium, the UK and the Netherlands. Therefore, the manner in which Brexit would be concluded could have an important impact on the German economy. High immigration of skilled workers is of great importance for matching the demographic changes and low fertility rates. This is, however, a sensitive political issue, especially in the wake of a potential refugee crisis. Burdensome bureaucratic obstacles make the process of hiring workers coming from outside the EU very costly.