



To the point!

Cross-Asset- and Strategy-Research

Germany needs to encourage start-ups

Bureaucracy and labor shortages keep company formation at bay

A dynamic economy is driven by comings and goings. Companies disappear from the market when their business models become outdated. New and promising business ideas appear on the scene. Both entries and exits belong to a thriving market economy. Ideally, they should be more or less in balance.

But balance is exactly what is missing at the moment. Stories about insolvencies have crept into the news flow (fortunately the trend is not quite as gloomy as the economic situation). But when it comes to startups, the German economy is falling short. Especially in a period of rapidly accelerating structural change, it is of great importance that young companies lead the way and help to shape the future.

Fewer and fewer young people establish companies

The number of new companies being set up each year has been decreasing for years (see chart). This may partly be due to demographic decline: older people start companies less and take fewer other risks than younger people. As Germany's population ages rapidly, some slowdown in startup activity is to be expected. You might think.

But this is not even half true: In recent years the share of younger founders has actually declined! A study by the economic research institute [ZEW](#) in Mannheim and the credit agency Creditreform shows that the share of 30- to 39-year-old founders has fallen to 30%, from 40% at the turn of the millennium. The share of 20- to 29-year-olds has also declined, while the share of 50- to 59-year-olds has doubled to just under 20% over the same period.



Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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Since 2000 the enterprise birth rate has halved

Start-up rate in Germany



Source: LBBW Research, KfW Start-up Monitor, (start-ups per 10,000 inhabitants between the ages of 18 and 64).

Skill shortage hinders start-ups

The increasingly obvious shortage of skilled workers raises the cost of starting a business. At the same time, it makes dependent employment more lucrative and secure. More and more people, especially younger ones belonging to Generations Y and Z, seem to be asking themselves: why should I go through the stress and risk of a startup when there are excellent alternatives in regular employment?

Starting a business must become easier

This makes it all the more imperative to simplify the necessary procedures of starting a business. In an international comparison, it is much more difficult to set up a company in Germany than in many other countries. According to a study by the World Bank it took in 2020 nine administrative processes to get a start-up off the ground in Germany. More than in any other of the countries listed in the chart on the right. In Britain only four hurdles need to be jumped over. In Canada only two.

The task for policymakers is crystal clear: If structural factors such as demographics and the labor market stand in the way of business startups, it is all the more urgent to throw bureaucratic obstacles overboard so that starting up a business becomes more attractive.

This requires joint and coordinated action by federal, state and local governments. And not at some fine day in the future, but right now! Procrastination raises the risks that Germany will be losing touch with the world's most economically dynamic regions.

Let entrepreneurs finally be entrepreneurs again!

Lack of skilled workers hampers startup scene

How easy is it to start a business? Worldwide rank, 2020. (1 = easiest, 190 = hardest)



Source: LBBW Research, World Bank

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