Reducing administrative burden as a priority in the European Economic environment

This paper analyzes the importance of regulatory or administrative burden in the European economic environment and presents the application of the measurement tools already developed, and outlines the simplification strategies designed to reduce the burdensome regulatory complexity, unnecessary bureaucracy and paperwork.

**Keywords**: Regulation, regulatory cost, administrative cost, better regulation, Cutting Red Tape

**JEL Classification** D73/F15/L51.

**Introduction**

Regulation is essential in every society and of great importance for economic growth, social welfare, environmental protection and achieving the aims of public policy in many areas. In order to regulate business conduct and the efficient functioning of the market so that overall societal considerations are observed, a range of different requirements and obligations arising from regulation must be imposed. To comply with all these government requests, businesses must spend too much time, energy, resources that could have been avoided, but they should prefer to invest in their working effort and in more productive activities. These costly and burdensome bureaucratic requirements are a matter of societal waste. Cutting red tape is a priority for every country and constitute a Lisbon target for the EU in its effort to “become the most competitive and knowledge-based economy in the world”. The reduction of the regulatory burden, the improvement of the quality of legislation by better regulation is a key factor for the creation of a necessary business-friendly environment.

The objective of this paper is to analyze the importance of regulatory or administrative burden in the European economic
environment and present the application of the measurement tools already developed, and outline the simplification strategies designed to reduce the burdensome regulatory complexity, unnecessary bureaucracy and paperwork.

Part 2 describes the relation between EU’s regulatory framework and administrative burden arising from this.

Part 3 presents definitions and clarifications for various categories of regulatory and administrative costs which are considered necessary for the final structure of the standard Cost Model.


Part 5 analyzes the macroeconomic effects of reducing administrative burden in European economy.

Part 6 outlines the reduction of administrative burden strategies and the most important simplification tools used by EU and OECD.

Part 7 concludes with some comments on the importance of administrative burden reduction strategies in today’s EU economic environment.

EU regulatory framework and administrative burden

The long ongoing more than fifty years integration process has produced an enormous volume of legislation pursuing objectives set out in the Treaties and public policies. An enormous magnitude of regulations, directives and procedures were necessary in order to establish the regulatory framework that ensures the efficient functioning of the Internal Market. An almost ‘frenetic’ legal environment with detailed legislative process and great amount of technical details often complicated or obsolete constitutes the enforced regulatory framework to which business and citizens have to comply with. Almost every area of economic and social activity, including appropriate levels of safety, security and social standards, labor relations and functioning of labor market etc. is covered and regulated by this legalistic framework with constant changes.

In order to comply with huge administrative duties, counterproductive in nature, are necessary by the business community. It is a source of true inefficiencies, increasing transaction costs, (administrative harassment) and also widespread micro-corruption and informal business activity.

Market regulations, despite the fact that they are essential to create low cost environment, in which commercial transactions can take place, and also serve to correct market failures or to protect market participants, they have cumulative impact that may impose substantial economic cost (European Economy, 2005).

This regulatory burden is resulting from both community and national legislation, is especially important for small and medium-sized enterprises (SMEs) which usually have only limited resources to deal with administration. According to a survey by the European Commission (2004), indicated compliance cost in the field of company taxation (corporate tax) that vary between 1.9% of tax levied on large corporations and up to 30.9% for SMEs. For these reasons the reduction of administrative burden by limiting administrative requirements and bureaucracy has long and widely been viewed as an im-
important determinant for the improvement of business environment and an effective way to encourage investment.

**Regulatory cost and administrative burden: Definition and clarification**

Regulations are very important in every society as a means of assuring public interest or achieving public goals, but should never be an objective in themselves. Regulation means compliance with rules by companies and citizens that is costly and in some cases, without benefits or unnecessary, becoming a matter of social waste. Before measuring various costs provided by the agreed international Standard Cost Model (SCM), by the EU, OECD and many European countries it is important to clarify and define these costs and burdens. The SCM is not a static model and used by various countries it evolves and develops over time constituting a useful instrument for cross-country comparisons. According to SCM, complying with regulations usually involves costs, cost of rules and regulations or Cost of Regulation, which can be divided into various categories. One of these is the Financial Costs which are the result of a concrete and direct obligation to transfer a sum of money to the government or to the relevant authority. Examples of financial costs are taxes, dues, administrative charges and fines etc. All these transfers to the government provide the necessary resources for the proper functioning of the modern state. In the case of an efficiently functioning state, these initial financial costs are transformed into various kinds of services and return to the companies and citizens. All these costs are excluded by SCM measuring the administrative burden. They don’t constitute a burden or a cost of regulation. The cost of regulation or Regulatory Cost defined by the SCM as Compliance Cost is subdivided in two main categories: Substantive Compliance Cost and Regulatory or Administrative Burden (AB). These costs constitute the regulatory cost that means all the real costs of regulation included in the above mentioned categories. Substantive compliance costs are the costs that businesses make in order to comply with content obligations which legislation and regulation require from a production process or a product. (International Working Group of AB, 2004).

Some examples of substantive compliance costs are: Filters in accordance with environmental requirements, physical facilities in compliance with working or health conditions regulations, obtaining the specific professional knowledge necessary for a particular diploma etc. Such costs are rising in order to improve environmental, health, working or safety standards are related with the quality of products and services. They are productive in nature, bring benefits and constitute necessary imputes for the final product and service contributing to their competitiveness.

On the other hand, the second category, Regulatory or Administrative Burden includes administrative costs which are costs imposed on businesses when they comply with information obligations stemming from government regulations. The term businesses should be taken to mean every section of the economy – with the exception of public administration – which produces goods and services for the market and the main purpose of the business is to generate profit for the owners. The term Information Obligations
(IOs) means the duty to procure or prepare information and subsequently make it available to either a public authority or a third party. Businesses provide information directly to a government body, but also the government sometimes imposes that third parties (usually private individuals or consumers) should be fully informed with regard to the conduct parties of the characteristics of products. Examples of such information to the public authorities can be applying for permits, corporate tax returns, provision of information on sick employees etc. and to third parties, obligations to inform pension funds, instructions for use of medicine and other goods, provide invoices for certain transactions etc.

By regulation we mean generally binding regulation imposed by the government – that means all bodies controlled and financed by government – like laws, acts, executive orders, ministerial regulations etc. Regulations can also be imposed by non-government organizations, like foreign embassies, branches of international institutions based in a country. All these administrative costs imposed on businesses, when complying with information obligations stemming from regulations, are unproductive, dead-weight costs in nature. Because of this, they constitute a burden, counter-productive expenses on business, eroding their competitiveness. For this reason, comes the necessity to reduce without having any negative impact on the quality of goods and services.

Evolving and measuring the SCM, we must point out that some elements of administrative cost need to be treated with some caution. There are cases where these costs might be expected to incur regardless of whether regulation exists. These costs are rising from activities for their own business purpose (business as usual) do not represent administrative burden.

In our presentation of administrative burden as it is used in the SCM, the total cost is that imposed by the government regulation on business and citizens.

The SCM seems to ignore and not take into account the administrative costs for the government and the whole public sector. These costs are created by the handling of this information, inspections, enforcement of regulation, monitoring, using IT systems, training and meeting any requirements imposed by regulation.

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**Fig. 1. Regulatory cost and its main categories**
They are also costs without benefits, unproductive costs.

Viewing the administrative burden by the scope of national economy, we consider necessary to estimate the total cost that includes the administrative burden for both sectors: to the private and the public. By this we can have another also very important picture for the real cost and burden in the entire economy, that is the total cost of our bureaucracy.

The above are illustrated at the below Fig. 1.

The measurement of Administrative Burden (AB) by Standard Cost Model (SCM)

Once it has been defined and it is clear exactly what AB is and which cost counts as such, the AB can be quantified. The SCM is simplified and consistent methodology that has been initially developed in the Netherlands and then internationally in order to estimate administrative costs imposed on business by government. This quantification has to take place in a uniform and transparent manner. The SCM is an instrument designed to measure the AB arising from regulation on national and international level per ministry and different countries in a way that provides insight and allows comparisons of the estimated figures. As a theoretical approach to reality, sometimes using assumptions, the quantified AB is only an approximation to the actual costs rather indicative than statistical representative.

The measurement of AB has to be realized in three stages, starting with stage 1. (Better Regulation Executive, 2006)

In stage 1 the preparatory analysis consists of a carefully and precise mapping in order to identify all information obligations (IOs) legally required and stemming from the regulation under examination. In order to describe the origin of regulations data requirements have to be classified into three main categories by criteria: their origin from EU or national and international regulation. Also by main types of EU regulation as it is Directives, Regulation, and International Regulation etc. Descriptions of the characteristics of the regulated organization by industry sector of economic activity and segmentation in relation to firm size of organization where SCM identifies four size bands (micro, small, medium and large size). Identification of population, rate and frequency, and preparation of interview guide constitute necessary duties in stage 1. (SCM Network, 2004)

In stage 2, a number of cost parameters need to be collected gathering the necessary information. This is the stage for time and cost data capture and standardization. For every IO, businesses have to procure one or more messages and in order to be able to deliver these messages, have to perform certain administrative activities. Each activity takes a certain amount of time to perform and therefore carries a wage cost to those employees who perform the task. The certain number of companies, with the certain amount of times each year, constitutes the Q in SCM and the P comprises the wage cost. The relationship between regulation, IO, messages, administrative activities, Q and P is illustrated in Fig. 2.

In stage 3 we focus on processing the data collected in order to calculate the cost of every administrative activity. For the purpose of our estimations, components and formulas included in the struc-
The basic formula in the SCM is (Home Office Final Report, 2006):

\[
\text{Activity Cost} = \text{Price} \times \text{Quantity}
\]

Where:

\[
P \text{ (for price)} = \text{Tariff} \times \text{Time}
\]

\[
Q \text{ (for quantity)} = \text{Number of entities concerned} \times \text{Frequency}
\]

Frequency = Number of times a business delivered a message per year

The total administrative cost for business from the related regulation is:

\[
\text{ABb} = \Sigma P \times Q
\]

Also, the total AB faced by the private sector is the sum of all AB administrative costs arising from the total regulatory framework. Using the same formula we can reach to estimations for the Public Sector (\(\text{ABp}\)).

\[
\text{ABp} = \Sigma P \times Q
\]

Consequently the total AB for the whole economy in both sectors, private and public, is:

\[
\text{ABe} = \text{ABb} + \text{ABp}.
\]
Macroeconomic effects of reducing the administrative burden in EU

The measurement of the administrative burden by measuring systems based on SCM has become an important part of the burden’s reduction programs in many countries, and reliable estimate of countries’ regulative efficiency. But the impacts of regulation on businesses and the economy is wider than the administrative burden’s scope. The AB has negative macroeconomic impacts on the economy and the efficient use of resources. The AB or the red tape is costly for business and citizens who spend much time and devote significant recourses for unproductive administrative activities. For these reasons, AB affects cost efficiency, discourages innovation and erodes the international competitiveness of domestic firms. In many cases, it hinders action or decision making and constitutes a factor for business and formality, high transaction costs linked to corruption, to luck of transparency, accountability and predictability of the public administration. (OECD, 2009)

This is especially important for SMEs enterprises which are less equipped to face administrative burdens due to greater resource constraints, limiting their competitiveness. By hampering investment, entrepreneurship, and attractiveness of a country to foreign investment, there are negative impacts on microeconomic aggregates such as employment, national income and inflation. Cutting red tape, and making the economy less burdensome is an effective instrument and a right way to promote a more favorable business environment. Because of this, in today’s economic environment of European Internal Market’s Regulatory Competition, AB reduction is of great importance for the allocation of productive activities and constitutes a high priority on the political agenda for EU countries (Baldwin, Cave, 1999).

The reduction of AB for private sector implies that relatively more labor can be used for productive activities, workers can contribute directly to production and for the public sector, and this means more efficient use of resources and labor savings that can be used to produce more socially necessary public services.

With the aid of SCM the AB in Netherlands has been estimated up to 16.4 billion euros or 3.7% of Dutch GDP in 2002, while 42% of this stems from European legislation (European Commission, 2006).

Combining Dutch data, H. Kox (2005) estimates AB to range over EU countries between 2.4% of GDP in the UK, Sweden, Finland and Denmark to 4.4% of GDP in Hungary, Greece, Poland and Slovenia.

Under the assumption that the AB on business for the whole of the EU is equivalent to the value estimated for the Dutch economy, P. Tang and G. Verweij (2004) analyzed empirically the direct and indirect effects of reducing AB on firms, implying that the total AB in the EU would be a total of 340 billion euros in 2002.

Because of the importance to reduce AB in the European economy, in November 2006, the commission proposed launching an ambitious Action Program in order for the Spring European Council of 2007 to fix a reduction target of 25% achieved jointly by the EU and member states by 2012 (European Commission, 2006a, 2007).

This Action Program is not about the regulation, it sets out how the commission proposes that the Information Obligations should be identified, measured and reduced. This program underlines the commission’s commitment to Better Reg-
ulation as part of the “Growth and Jobs” Lisbon strategy because the reduction of AB constitutes a Lisbon target. The Macroeconomic effects of 25% country-specific reduction in AB according to estimates is going to promote significant improvements in labor productivity, 1.3%, increasing GDP by 1.5%, total factor productivity 0.2%, consumption per capita 1.3% and terms of trade -0.1% for EU-25 in 2005 (European Commission, 2006).

Reducing AB strategies

Because of the high cost that AB imposes on businesses and administration, it is of high importance and priority for governments to focus on reducing it. As we presented in the above analysis, the SCM provides a transparent measurement of the AB and it is action-oriented in the nature of its results. Because of this, the natural extension of SCM measurement is simplification (SCM Network, 2004).

These measurements highlight the burdensome areas of regulation. The SCM is a useful indicator to identify the cases where the simplification effort must be directed at the business or within the administration (SCM Network, 2007).

It is also a key to simplification work, providing a crucial base line and a source if ideas for simplification opportunities, encouraging cultural change. As a helpful instrument to this work, it has numerous advantages: It makes possible to point out some specific parts of legislation particularly burdensome, reveals where in the business process AB occurs and so the simplification effort should be focused. By SCM we can also make comparisons between countries, and such comparisons benchmarks can provide countries with fresh ideas for reducing burdens, and be used as a tool to highlight the impacts of international legislation, especially by EU regulation. The desire to simplify regulation, both at European level and within individual member-states has been considered since 1985 as a prerequisite for the achievement of the EU-wide single market. However, a decade later, the search for better quality regulation took on a more systematic form by a protocol annexed to the Treaty of Amsterdam (1995) setting out the seven core principles of good regulation to be respected at a European level: Necessity, Proportionality, Subsidiarity, Transparency, Accountability, Accessibility and Simplicity (European Commission 2001).

The Lisbon strategic goal for EU to become “the most competitive and dynamic knowledge-based economy on the world” depends partly on improving Europe’s regulatory environment. A coordinated action at European and national levels was necessary as it was declared in Lisbon European Council, “To set out by 2001 a strategy for further coordinated action to simplify the regulatory environment, including the performance of public administration at both national and community level”. On the basis of this declaration and the above principles, an ambitious long-term agenda for change has been developed with strategies, tools, proposals and concrete targets reflecting best practices for the reduction of AB. Strategies to simplify regulations focus on two dimensions: Examine the AB that will be introduced by new regulations before they are implemented and reforming existing burdensome regulations. A useful instrument for these strategies is the Regulatory Impact Assessment (RIA) process, an exercise to determine the likely effects of any new regulation before it is implemented.

Basic tools such as “one-stop-shops”, the application of the “silence principle”, re-
engineering process, the use of electronic and web-based technology, the reduction of frequency for information requirements etc. are principally used for administrative simplification and cutting red tape for business. In parallel to EU, OECD has also been at the forefront of the work on administrative simplification issues since the 1990’s as a unique international form where officials and practitioners share their experiences and techniques, thus accumulating knowledge. With its 2005 guiding principles of regulatory quality and performance, OECD has set the basis for the work on administrative simplification, advising governments to minimize the aggregate regulatory burden on those affected as an explicit objective to lessen administrative costs for citizens and business, as part of a policy for stimulating economic efficiency (OECD, 2009).

Analysis of these principles of OECD policies has been presented also in other OECD publications (OECD, 2005, 2006). Because of the great importance that AB has for the regulatory and business environment, all countries have developed simplification strategies and detailed programs for AB reduction on business and public administrations. Their efficiency and success is of crucial importance for attracting investment and productive activities in today’s globalized economic environment.

Conclusions

Compliance with a huge amount of administrative rules and procedures stemming for EU and national legislation imposes high costs and becomes very burdensome for business and citizens. Red tape, the cost of bureaucracy as a matter of resource waste has many negative macroeconomic impacts. It is important to fully understand the cost of administrative burden and becoming familiar with a method estimating the size of AB. The Standard Cost Model is today the most reliable, widely applied methodology for measuring administrative burden. Measuring systems and techniques based on SCM have been introduced or adapted and vary between countries. In this paper, using the same base, we reach an approach or version of SCM considering a more precisely defined practical and useful tool for businesses, public administration and the national economy.

Measuring the burden has become an important part of the burden reduction program and simplification strategies worldwide.

To improve the regulatory environment by promoting a culture of better quality regulation is a high priority in EU’s agenda. Administrative simplification programs making compliance easier and less costly, is a continuous process. A wide range of tools and approaches, a list of “best practices”, developed mainly by EU and OECD are available today for governments in their battle to reduce administrative burden and cutting red tape. In order for these programs and tools to be applied and produce the expected results, a strong political support, clearly defined targets and a strict timetable are necessary preconditions.
References


The paper submitted: May 30, 2009
Prepared for publication: September 01, 2009

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ADMINISTRAVIMO NAŠTOS MAŽINIMAS EUROPOS EKONOMINĖJE APLINKOJE

S a n t r a u k a

Administavimo naštos sumažinimas reiškia įvairių kaštų mažinimą, kurie patiriami vykdančio verslo įmonių, viešųjų įstaigų bei piliečių šalies viešose sektoriuose bei reikalavimų, susijusių su visais valdymo aparato aspektais. Pripažįstama, kad dėl mažinimo naštos svarbą jos mažinimas buvo įtrauktas kaip Lisabonos strategijos tikslas ir nuo tada šie rodikliai tapo vieni esminių vertinant atskirų šalių veiklos rezultatus. Ruošiant administracinių naštos mažinimo programas yra svarbu tinkamai įvertinti šios naštos dydį, todėl šios naštos matavimo problemas taip pat susilaukė didesnio dėmesio.

Šiame straipsnyje analizuoja administracinių naštos svarbos Europos ekonominėje aplinkoje bei pristatomas egzistuojančių mažinimo įrankių pritaikymo galimybės šioje srityje. Taip pat patiekiamas strategijos, kaip sumažinti valdymo mechanizmų kompleksiškumą bei nereikalingą biurokratiją.
REDDUCING ADMINISTRATIVE BURDEN
AS A PRIORITY IN THE EUROPEAN ECONOMIC ENVIRONMENT

Straipsnio tikslas – pristatyti analitinius įrankius administravimo naštos matavimui kiekvienoje šalyje (Standartinis Kaštų Modelis) bei įvertinti šios naštos įtaką atskriems ekonominiams rodikliams bei ekonominei aplinkai visumoje. Straipsnyje remiamasi įvairiais Europos šalių patirties pavyzdžiais.

Norint atitikti visus įstatymuose numatytus reikalavimus, reikia papildomų išlaidų. Dalis minėtų išlaidų patiriami vykdant vyriausybės reikalavimus dėl tam tikros informacijos pateikimo. Šie kaštai visiškai nebūtini ir nesusiję su gamybos procesu, o neproduktvyrios administracinės veiklos tampa našta kiekvienos įmonės kasdienėje veikloje.

Tarptautiniu mastu naudojamas Standartinis Kaštų Modelis suteikia galimybę kiekybiškai išmątuo ti administracinės naštos dydį. Šios matavimo metodologijos plėtojimas leidžia išvystyti strategijas, kaip sumažinti patiriamus kaštus; nustatyti maksimalią galimą administracinės naštos ribą; pasiekti geresniąją kokybės valdymą. Tai galima pasiekti įvairių įrankių pagalba, kurie išvystyti tarptautinėje erdvėje, o ypač Europos sąjungos ir OECD šalyse.

Europos sąjungos Augimo ir Darbo strategijoje aukštas prioritetas skiriamas administravimo naštos mažinimui bei įstatyminės bazės tobulinimo veiksmų programai. Teigiama, jog sumažinus administracinės naštos kaštus, kurie siekia nuo 2,4 % iki 4,4 % BVP įvairiose Europos šalyse, nauda, kurią patirs Europos gerovė bei ekonominė aplinka, bus akivaizdi ir ženkli. Šiam tikslui pasiekti yra būtina stipri politinė parama tiek nacionaliniam, tiek ES lygiuose.