Economic Research

Economic Insight

How to cut red tape

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I show how reducing bureaucracy can succeed.

For at least twenty years, every new federal government of Germany has promised to relieve companies of burdensome bureaucracy. So far, all governments have failed to do so. **Our survey of German medium-sized businesses** recently revealed that they see bureaucracy as the single largest problem for Germany's competitiveness – far ahead of high energy costs, taxes, and the shortage of skilled workers (Chart 1).

If the state trusted companies, ...

The previously passed laws for reducing bureaucracy and the Regulatory Control Council, established in 2006 as a key agency to reduce bureaucracy, are not inherently wrong. However, they will not solve the problem of excessive bureaucracy as long as the state does not change its fundamental attitude towards companies and the market. Instead of facing them with fundamental skepticism, the state should place more trust in companies and markets.

... it should refrain from new and overly excessive laws ...

This is particularly important when no laws or regulation have been enacted yet, as their enforcement always leads to bureaucracy. The aim is to avoid unnecessary laws with their often high bureaucratic costs right from the start – in the spirit of the French political theorist Charles de Montesquieu (1689 – 1755), who coined the phrase: "If it is not necessary to make a law, it is necessary not to make a law."

The more a state trusts companies and the market, the more likely it is to decide against regulations and laws. For example, it would then refrain from excessive reporting requirements on sustainability, which burden the companies with unnecessary work. Instead, a trusting state relies on market mechanisms such as a CO2-emission trading system, which creates economic incentives for climate protection through a CO2 price. A trusting state would probably not enact a supply chain act either, which will soon be introduced at the EU-level and which will put companies of a certain size under general suspicion, since it requires them to document that they comply with the rules.

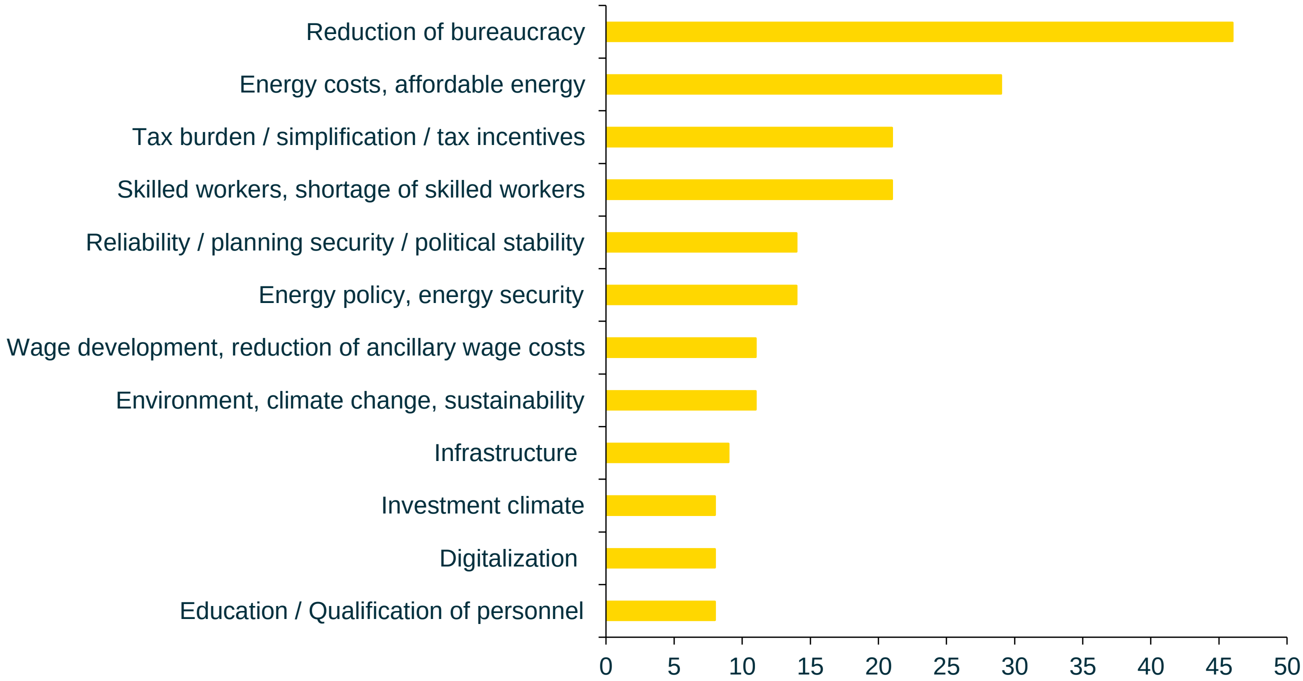
If the state approaches companies with an attitude of trust, it not only refrains from regulation in many cases from the outset, but where regulation is necessary, it designs the law to be as slim as possible. A trusting state works closely with associations, individual companies, and experts to make regulations as practical as possible. This involves clear wording, digitalization, and legal clarity, while the state should give companies and associations not just a few days but sufficient time for their feedback.

... thereby creating a good regulatory framework

When these consultations occur in a spirit of cooperation and companies are seen as true partners, a low-bureaucracy regulatory framework can emerge that is essential for the economic development of Germany and its prosperity.

Chart 1 - Bureaucracy is the most urgent pain point for German SMEs

Commerzbank survey "Entrepreneurial Perspectives": "Which three areas do you think urgently need improvement? What are the biggest levers for you to create an economic upturn?", multiple answers possible, in percent



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