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## In need of a paradigm shift – Rethinking bureaucracy reduction and regulation policies

by Michael Holz and Prof. Dr. Dr. h.c. Friederike Welter

### The problem: Too much and too costly

Highly complex economies and societies need regulations to ensure their ability to function. These ensure legal and planning certainty and prevent corruption. However, especially in the view of SMEs, the "optimal" level of bureaucracy – which is difficult to determine empirically – seems to be far exceeded by now. According to a recent study by IfM Bonn (Holz, Icks & Nielen 2023), the bureaucratic burden on companies goes well beyond the statistically measured time and cost expenditures. At least as important are psychological costs, opportunity costs and the impact on investment and competitiveness. It is particularly worrying that for the majority of entrepreneurs, bureaucracy spoils the enjoyment of their entrepreneurial activities. Instead of excessive control by the legislator, they would like to see more trust and room for manoeuvre. They criticise the lack of proportionality, meaningfulness and practicability of the regulatory content and no longer feel able to comply with all legal provisions. Instead, they practise "autonomous bureaucracy reduction", i.e. they deliberately do not implement individual regulations (Holz, Schlepphorst, Brink, Icks & Welter, 2019).

If this negative development is not counteracted with effective measures, there is a risk that the (tangible) economic and "atmospheric" effects will become increasingly noticeable both at individual company level and in the economy as a whole – for example with regard to employment, innovation and investment developments or start-up dynamics.

### Mainstreaming the 'Think/Act small first' principle into the entire regulatory cycle

Bureaucracy reduction and better regulation are highly complex, holistic tasks in which a multitude of government and administrative institutions on different levels must cooperate with relevant stakeholders in the context of rapidly changing external conditions. In order to achieve a noticeable reduction in the bureaucratic burden for SMEs and to provide a legal framework that promotes innovation, growth and societal

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prosperity, it is not enough to consider SME concerns on a selective ad hoc basis. Instead, the – fundamental and important – "Think/Act small first" principle on which European SME policy is based should be practised in the sense of a paradigm shift throughout the entire regulatory cycle. In all phases (selection of the policy instrument – design of regulation – implementation – monitoring and ex-post evaluation), the conditions must be systematically created and measures implemented that effectively relieve SMEs of excessive bureaucracy (cf. the action plan for Germany in Holz et al. 2023).

For instance, the range of options should not be narrowed at the beginning of the regulatory cycle, e.g., by only considering legal (regulatory) solutions or only one specific approach or instrument. The ministerial departments should also be obliged – as is already the case in the UK – to develop and examine various alternative courses of action in co-operation with relevant stakeholders. SMEs and business associations should also be explicitly taken on as co-owners of the bureaucracy reduction process and be actively involved with actual contributions. In the Netherlands, so-called SME tests (short online meetings with selected entrepreneurs) have proven effective in ensuring the practicability and proportionality of new legislative proposals. Currently, the bureaucratic burden is also noticeably being reduced by co-operating with SMEs from various sectors to identify and simplify those laws that cause the greatest cost and implementation burdens.

Finally, laws should in principle be drafted from the perspective of SMEs and any special regulations for large companies should be added – "SME-orientation by default" should therefore take centre stage.

### **Towards a risk-based approach to regulation**

Not least as a result of contemporary far reaching technological and societal changes, bureaucracy and regulation need to be completely rethought. Individual countries such as the UK are increasingly moving from traditional "command and control" to risk-based "enable and motivate" approaches ("risk-based regulation"). Here, authorities and companies are making joint efforts – based on risk assessments – to achieve important protection goals in partnership and in a trusting exchange of information and experience, whereby so-called "black sheep" must of course be sanctioned accordingly. This approach not only improves the effective achievement of policy objectives, but also reduces bureaucracy and is more in line with how the state, companies and citizens should interact and co-operate in the 21st century.

In the UK, the economic policy discourse also focuses less on small-scale bureaucracy and the static categories of time and cost requirements. Instead, the focus is on the importance of the regulatory system as a dynamic competitive factor in the international competition for attracting and retaining innovative companies. Also in the EU, the regulatory approach should be reorganised in such a way that it promotes and stimulates entrepreneurship and innovation for the benefit of society and the economy as a whole. Regulation interpreted in this way would serve less traditional (outdated) monitoring and control purposes but should rather constitute – in the sense of "regulation as a service" – an essential framework condition supporting competitiveness and innovation.

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## References

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