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# **Cutting red tape: How to make it work**

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***'Cutting Red Tape for Europe' Conference, Brussels  
Friday, 20 June 2008***



## **Making it work for Europe: Three key questions**

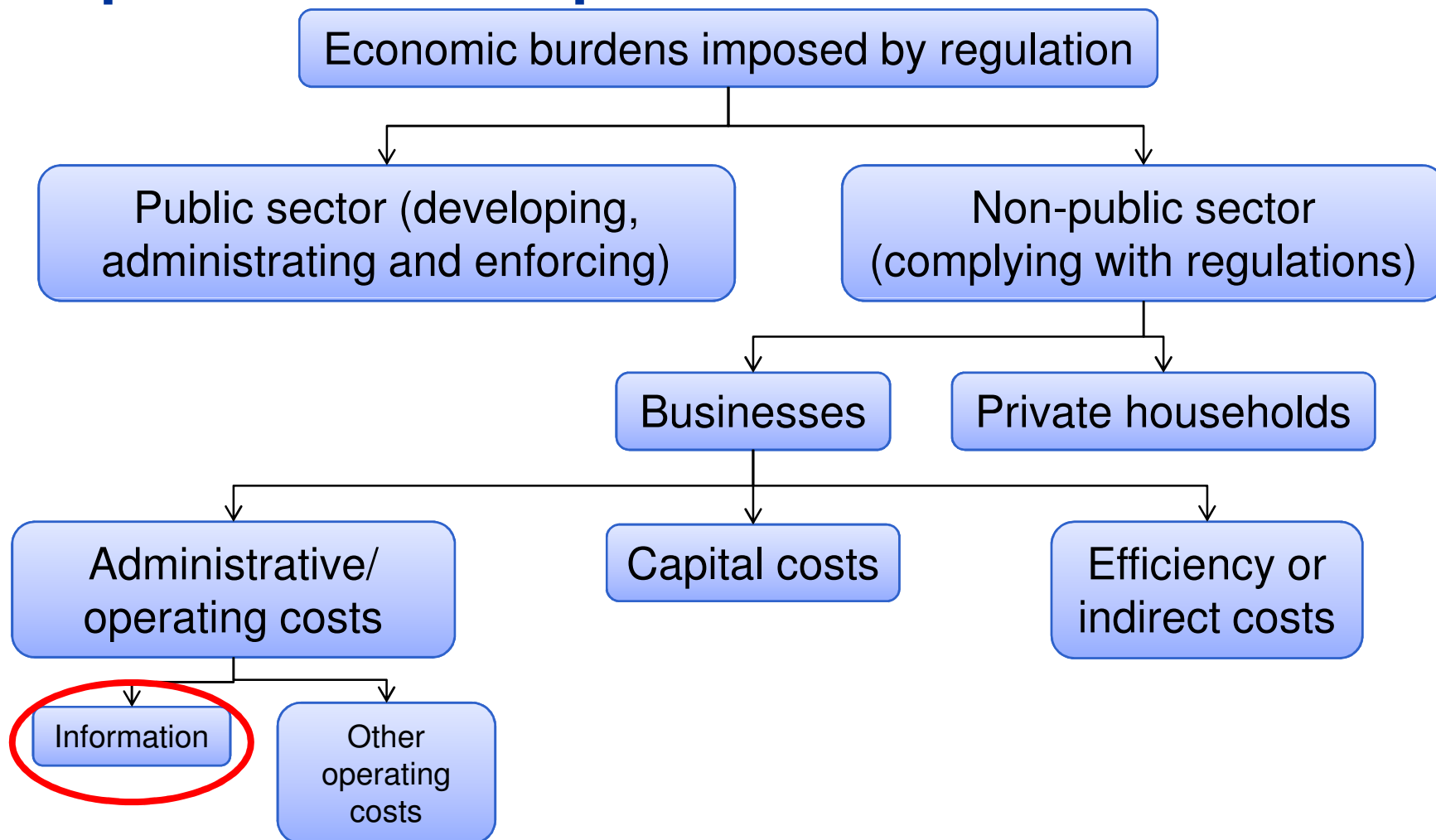
- Is a 25% reduction target (2012 compared to 2004) feasible?
- Is cutting red tape on businesses the right strategy to improve economic performance in the EU?
- How can such a strategy contribute optimally to economic performance in the EU?



## Reducing administrative burden: Does it make sense?

- Reduction target of 25% of administrative burdens on businesses by 2012, compared to 2004.
- *“Represents an important effort to streamline and make less burdensome **the way in which** policy objectives are implemented – one important measure of the quality of regulation at every level”*
- Assumption that government can satisfy many information needs at lower cost is well-supported by *Reinventing Government* and anecdotes from EU reform programs and OECD. Governments suffer massive inefficiencies.
- But....

# ...Is cutting red tape the right strategy to improve business performance?





## The principle of the EU “better regulation” agenda is...

**“What gets measured gets done.”  
-- European Commission**

- ...to regulate only when needed to carry out social, environmental and economic policies, using techniques consistent with lowest cost solutions, consumer choice, innovation, and open markets
- This requires continual questioning of the content and priorities of government policy, making wise tradeoffs between competing goals, and smart implementation techniques.
- Here is where a 25% reduction target becomes dubious.
- What happens in an information society when:
  - ◆ “red tape” is the most efficient form of regulation?
  - ◆ “red tape” produces more social benefits than costs?
  - ◆ “red tape” is efficient, but the underlying policy is not justified?



## Can we slow or reverse AB growth?

- The Golden Age of Regulation
- Regulation (and information collection) is the fastest growing government activity – an insatiable demand for new rules
- Is this bad? Not necessarily.
  - ◆ EU – over 100,000 pages of regulation comprise the Single Market, (and up to 900,000 more jobs from the Single Market)
  - ◆ United States: 115,000 new regulations adopted at federal level since 1981 (and highest average job creation in the OECD)



## **The regulatory system: complex, dynamic, and unaccountable**

- Governments have lost control of their regulatory functions -- regulatory systems are highly fragmented, decentralized, captured and resistant to change
- Who regulates?
  - ◆ European Union: more than 2,000 regulatory bodies at national levels
  - ◆ US Federal Government: over 50 regulatory bodies with over 800 separate departments and offices operating on different statutes
- What does regulation do?
  - ◆ No accounting of overall costs or benefits of regulation anywhere
  - ◆ Since 2001, US federal government has created almost \$30 billion in new regulatory costs (\$11 billion in 2007 alone)
- Reforms aimed at improving lists of rules will never catch up with the productive capacities of governments to create regulations .
- Sustaining efficiency gains from one-off reforms is clearly a systemic issue.



## U.S. efforts – an expanding legal and management framework to cut red tape

- **Paper Reduction Act 1980 (PRA)** -- intended to reduce the total amount of paperwork handled by the US Government and the general public. Created central Office of Information and Regulatory Affairs (OIRA)
- **Regulatory Flexibility Act (RFA) 1980** -- mandates agencies to consider the impact of regulations on small entities and determine whether there are equally effective alternatives to reduce the burden
- **Information Collection Budget (ICB)** -- OIRA provides a comprehensive accounting of the information collection activities of Federal government each year.
- **Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA)** – gives small businesses more influence over the development of regulations, additional compliance assistance for federal rules, and mechanisms for addressing enforcement actions by agencies
- **Government Paperwork Elimination Act 1998 (GPEA)** -- requires that federal organizations use electronic forms, electronic filing, and electronic signatures to conduct official business with the public, by 2003
- **Small Business Paperwork Relief Act of 2002 (SBPRA)** -- Each agency, to control paperwork, shall establish a point of contact to act as a liaison between the agency and small businesses

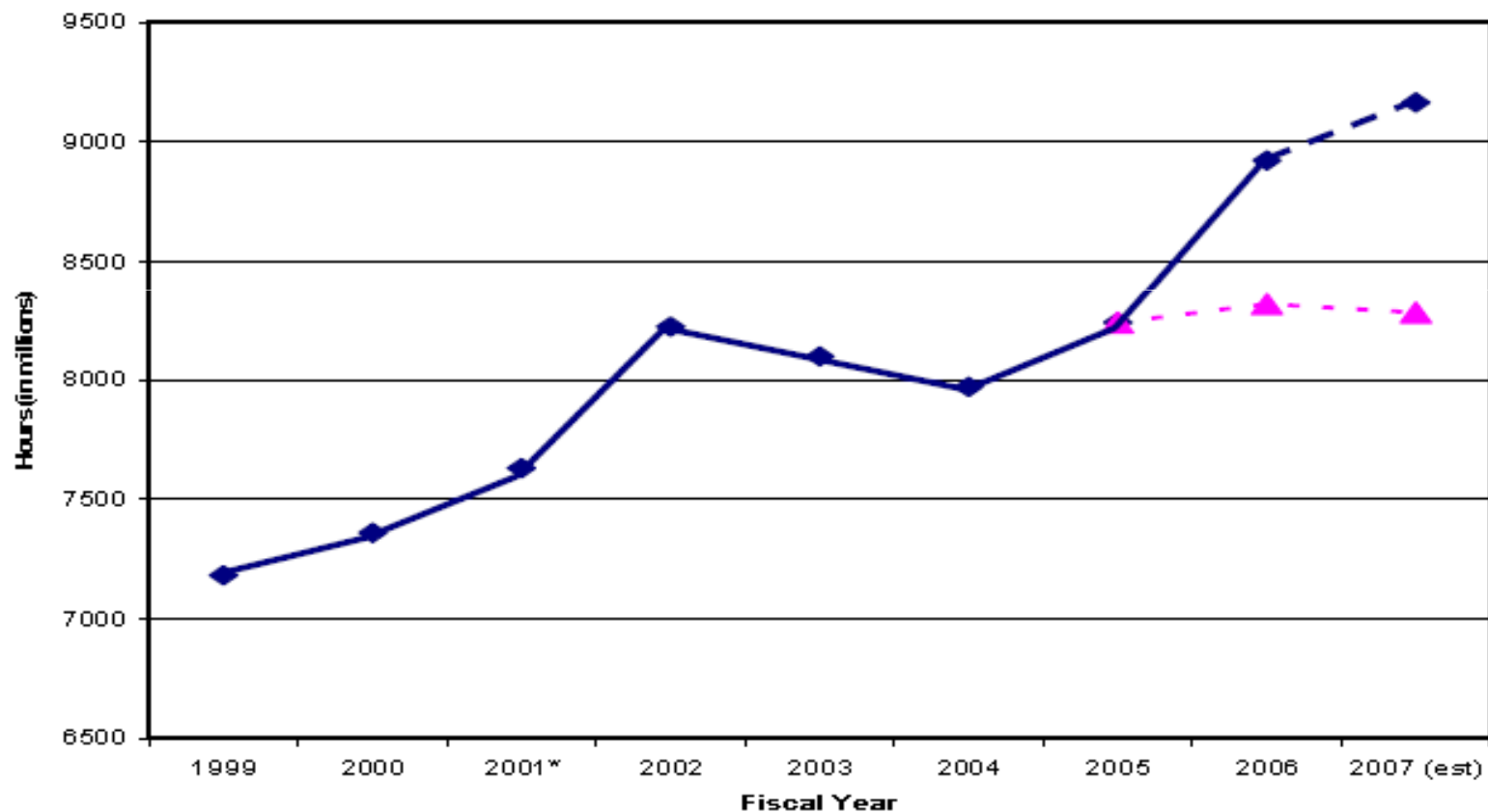




# Time spent complying with US Federal Paperwork

(Source: OIRA/OMB)

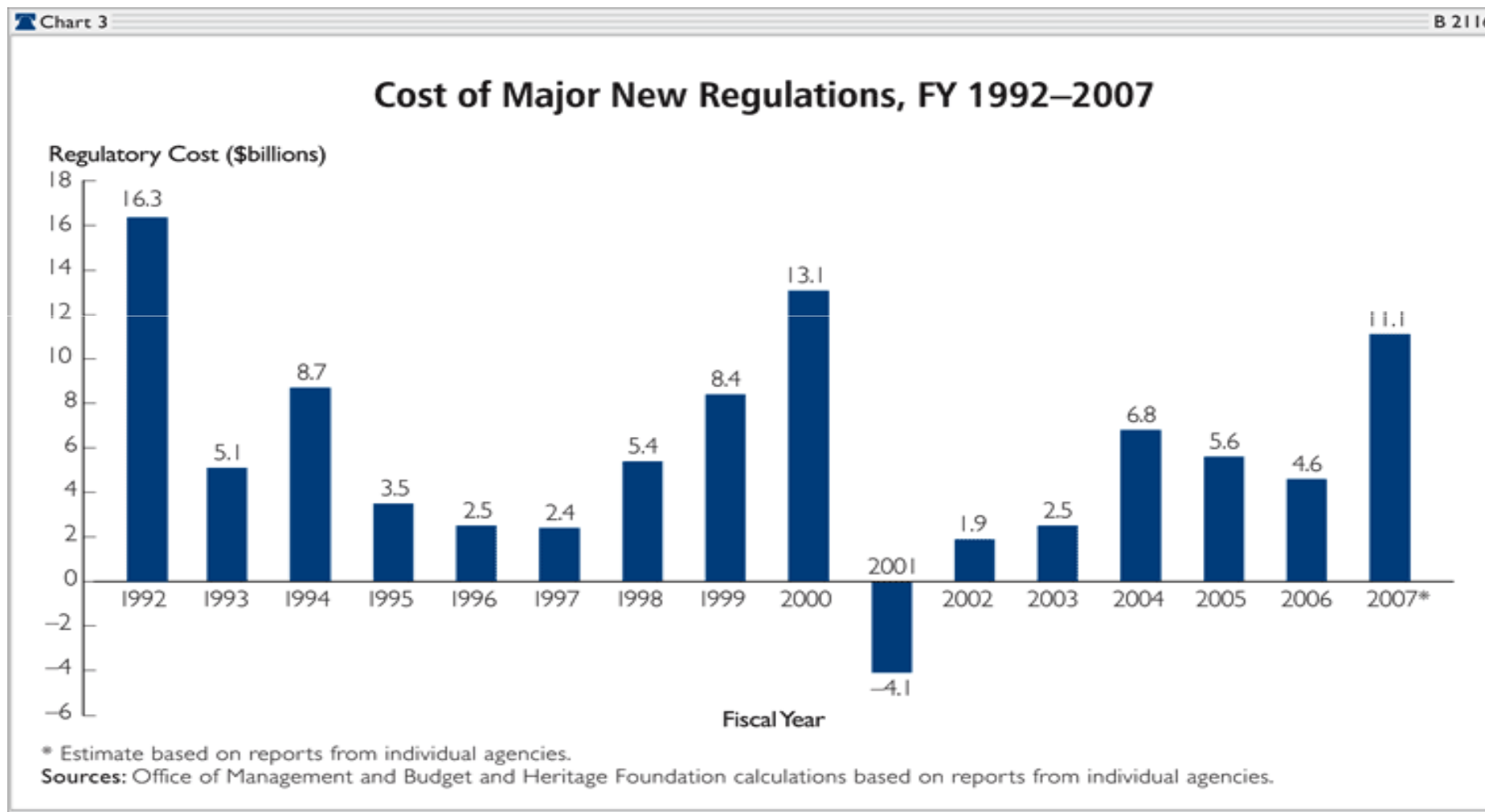
Figure 1. Total Burden (FY 1999 - FY 2007)<sup>d</sup>

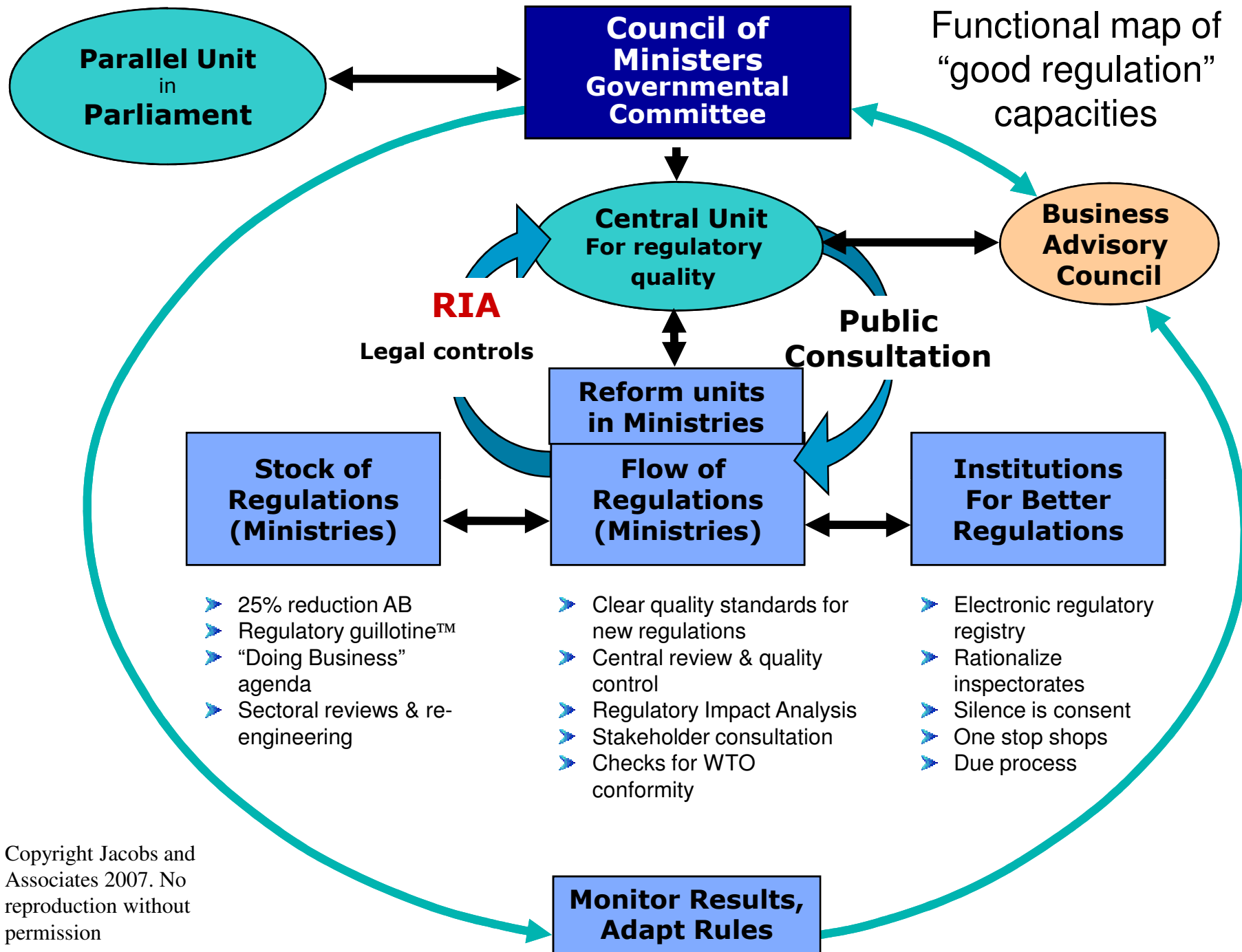


- ◆ Total Burden
- ▲ Total burden excluding adjustments and program changes due to new statutes.\*



# New regulatory costs in US







## Conclusions: How to cut Red Tape

- Administrative burden reduction can produce big savings...
- ....but is justified mostly as an opening strategy to manage difficult government-wide reform.... “as a political anchor to generate momentum for action.”
- Given the demand for new rules and the efficiency advantages of information, a net AB reduction Europe-wide is unrealistic.
- Over the medium-term, IO efficiency is not justified as a stand-alone approach. Partial reform can actually increase regulatory costs.
- Goal should be efficient government. Don't let cutting “red tape” interfere with efficient policy solutions
- Sustaining efficiency gains of AB reductions requires transition to the broader “good regulation” approach, with systemic solutions that go deeper than just “processing the same information better”
- “Whole of regulation” approach -- build new disciplines into machinery of government – problem definition, RIA, challenge functions, consultation, alternative policy instruments