

Public Administration Reform in Germany

Measurement and Reduction of Bureaucracy

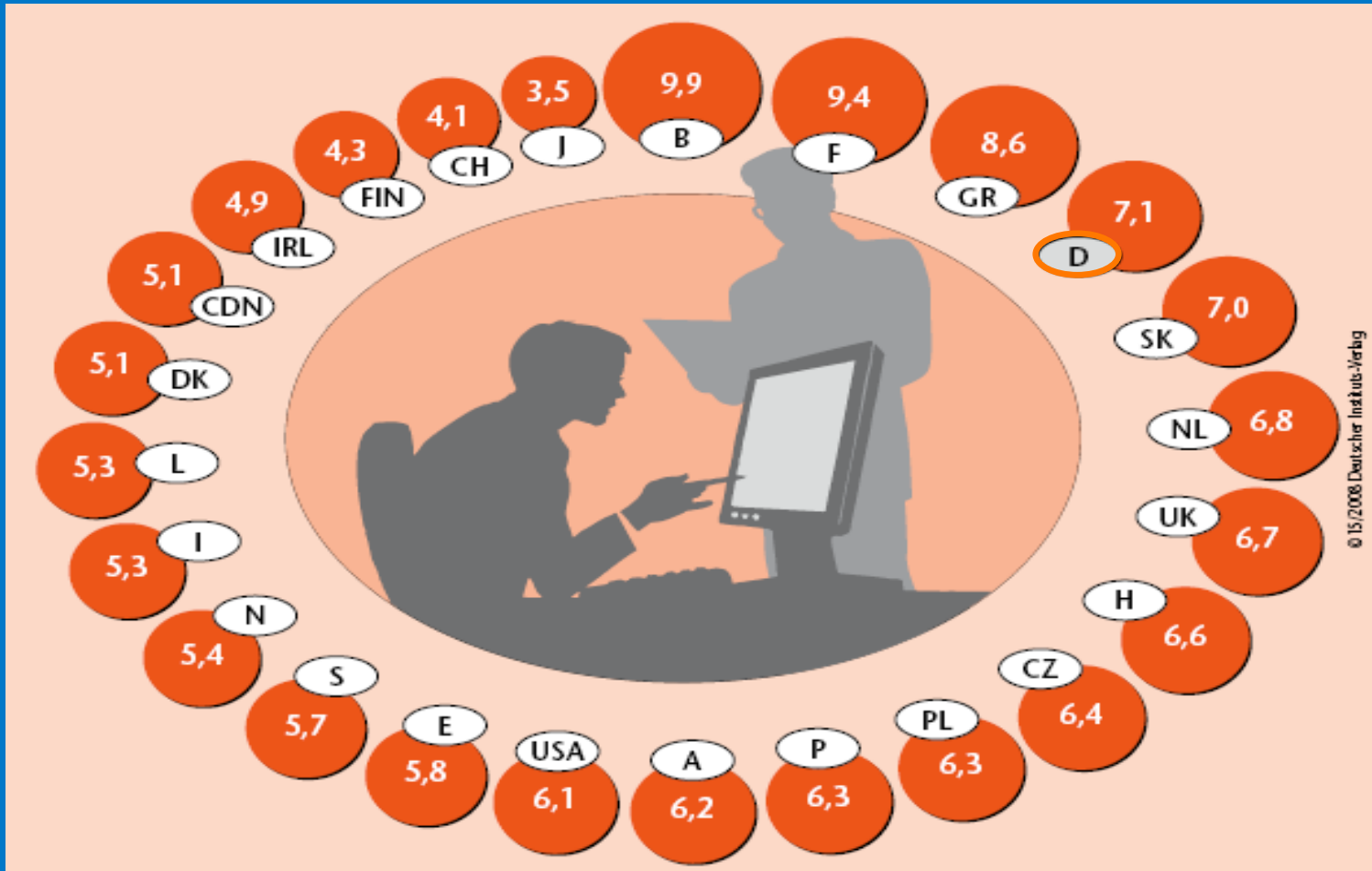
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Main Topics

- **Public Services: Employment in administrative Jobs**
- **Bureaucratic burden for enterprises – empirical results**
- **Bureaucracy and administrative reform in the European Union**
- **The measurement of bureaucratic cost to enterprises**
- **Reduction targets**
- **Unanswered Questions**
- **Additional measures to reduce bureaucracy**

Public Services: Employment in administrative Jobs In percent of total employment 2006



Public Services: Employment in administrative Jobs

- Employment in public administration in Germany was reduced from 2.9 to 2.6 million between 1995 and 2006
- This number contains only administrative functions, not teachers, public health and social workers and public companies
- But: With 7.1 percent of total employment, Germany has still the third biggest public sector in the OECD
- In Japan, only 3.5 percent of all employees work in public administration

Bureaucratic burden for enterprises – empirical results

- Enterprises face manifold bureaucratic regulations caused by national, European and regional legislation
- In 2004, a research institute (Institute for SME economics, Bonn) estimated the cost of bureaucracy to German enterprises at 46 billion euros
- 84 percent of this sum or 39 billion euros burdened small and medium enterprises (SME)
- In 2005, Germany started a programme for measurement and reduction of bureaucracy, following the Dutch example of the “standard cost model” (SCM)

Bureaucracy and administrative reform in the European Union

- **Better Regulation (BR) is seen as an essential element of the European „Lisbon strategy“ (1999, reviewed 2004) for growth and jobs**
- **The expected benefits include more investments through reduced costs for businesses and higher productivity**
- **Timetable:**
 - 2001 – 2002: Better regulation Action Plan, “Mandelkern Report”
 - 2005: Communication on BR by the Commission (after it became clear that the Lisbon Process was threatened)
 - 2006 – 2007: First Strategic Review, new Action Programme (25% reduction target for admin. burdens till 2012, covering EU legislation and related national legislation)
 - 2008: Second Strategic Review
 - 2009: Review of Action Programme

Bureaucracy and administrative reform in the European Union

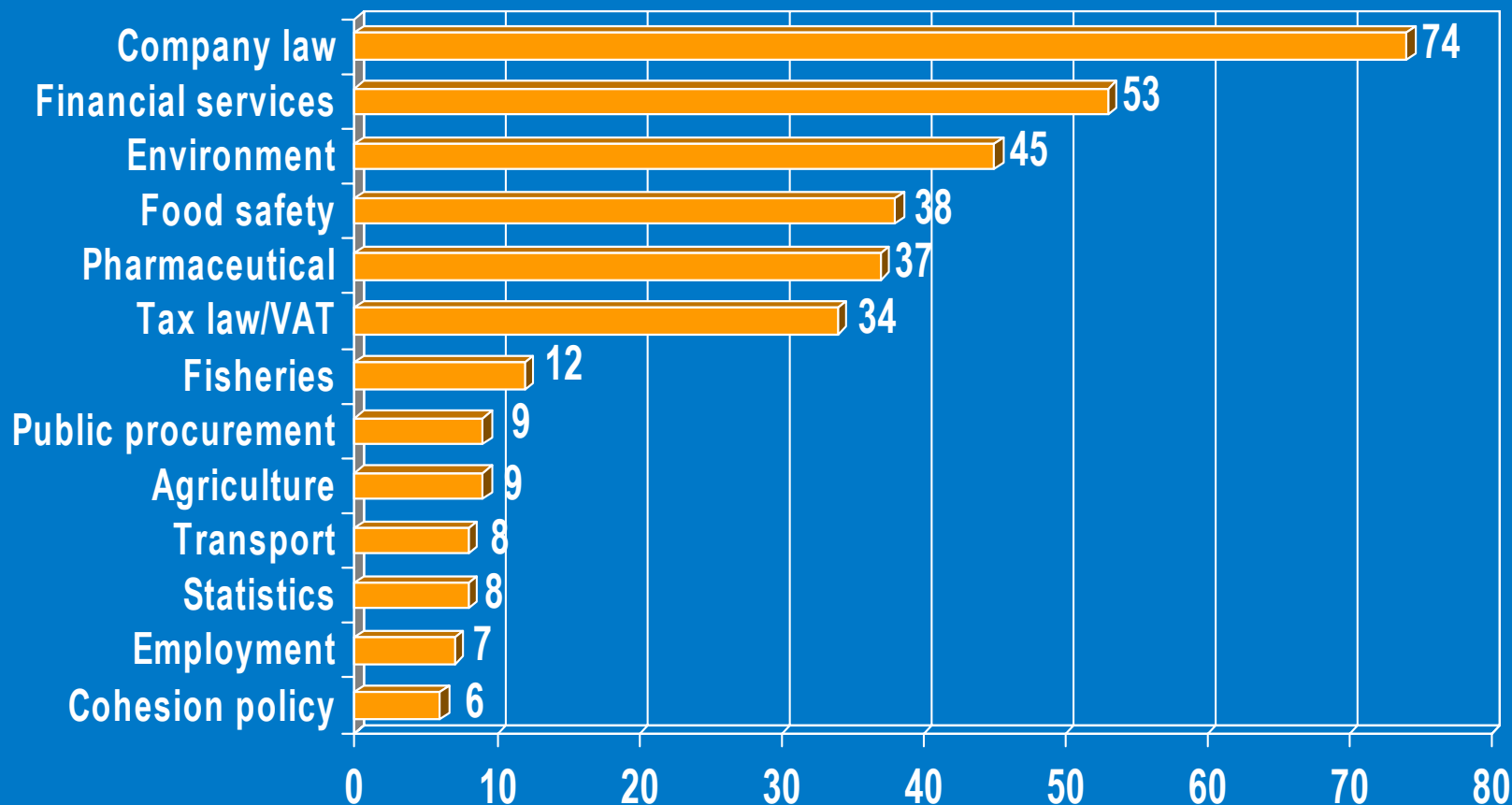
■ Main Components of the EU Action Programme:

- Impact assessment
- Screening of pending proposals
- Withdrawal of obsolete pending proposals
- Simplification of guidelines and directives
- Consultation of stakeholders

Bureaucracy and administrative reform in the European Union

- The Commission identified 13 Priority areas for measurement and reduction:
 - Agriculture and Agricultural Subsidies
 - Annual Accounts / Company Law
 - Cohesion policy
 - Environment
 - Financial Services
 - Tax Law / VAT
 - Fisheries
 - Food safety
 - Health Protection
 - Public Procurement
 - Statistics
 - Transportation
 - Working environment / Employment relations

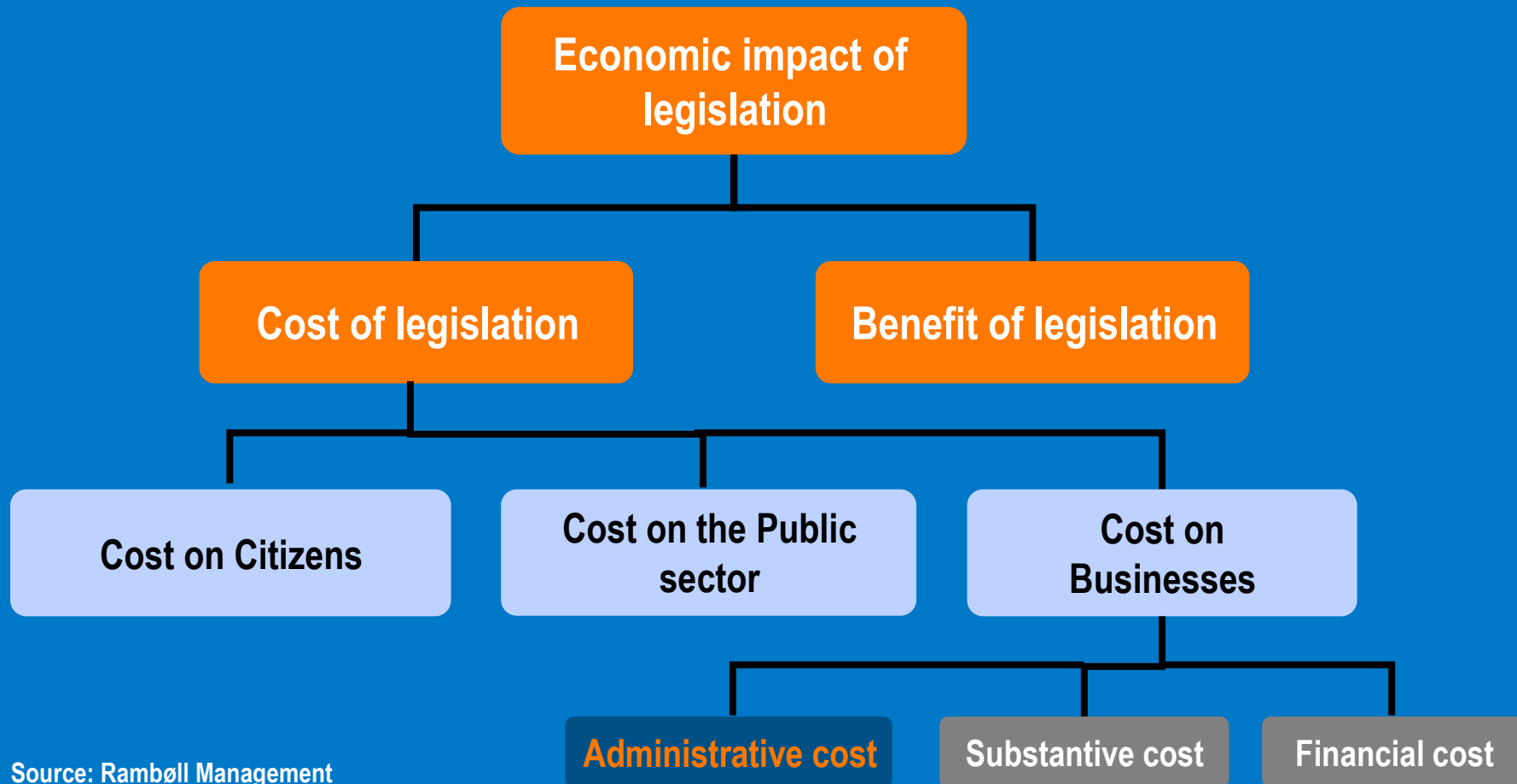
340 information obligations (IOs) have been identified stemming directly from the EU legislation:



The measurement of bureaucratic cost to enterprises

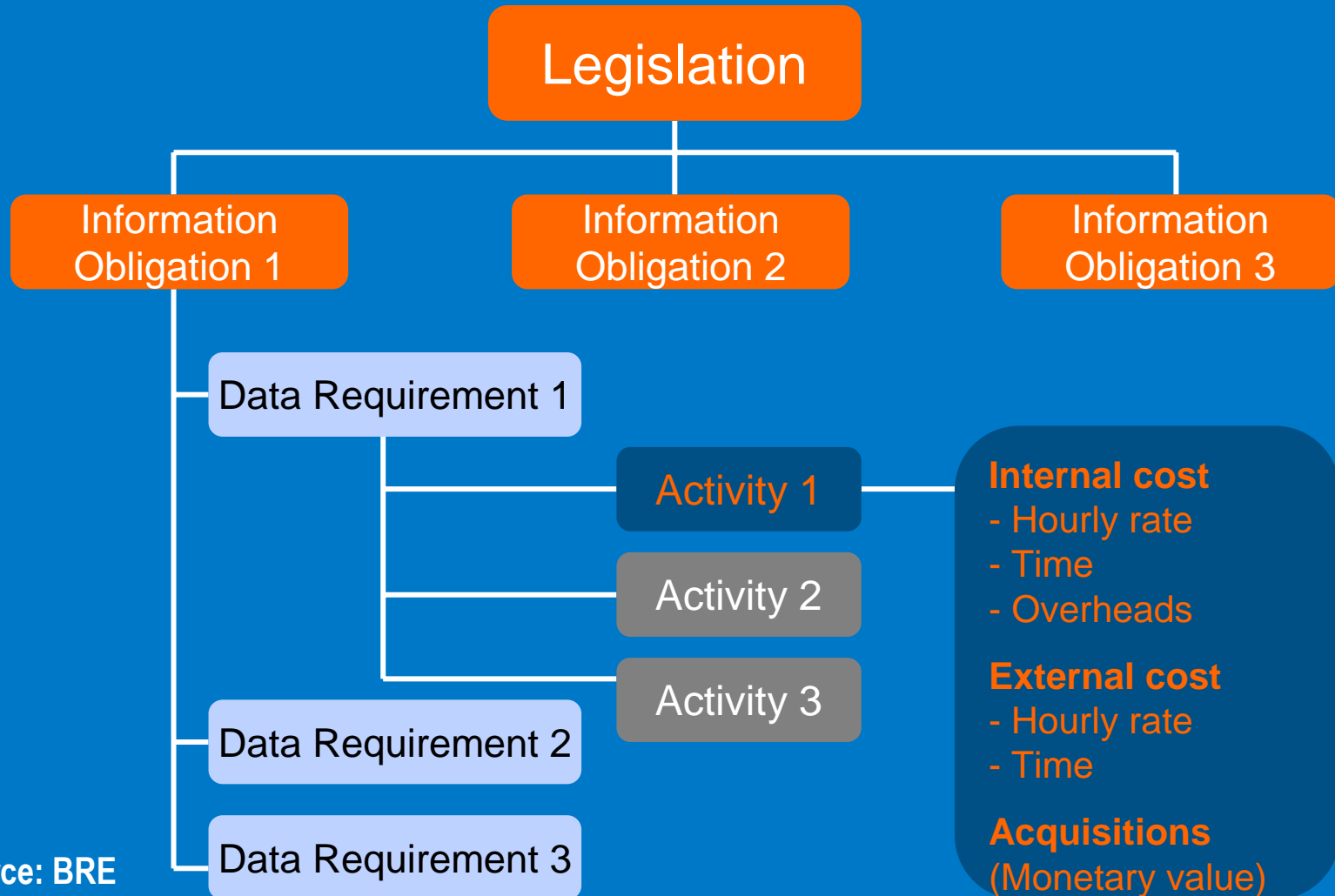
- In 1998, the Netherlands started a programme to reduce bureaucracy based on the measurement of administrative burdens for enterprises
- Administrative burdens are the costs of legally required information collection in enterprises and information transfers from businesses to government → **Information Obligation (IO)**
- Information is meant in a broad sense, including paperwork, labelling, participating in inspections
- **But:** This definition does not comprise the cost of observing the material contents of regulation

The measurement of bureaucratic cost to enterprises



Source: Rambøll Management

The measurement of bureaucratic cost to enterprises



Source: BRE

The measurement of bureaucratic cost to enterprises

■ The standard cost model (SCM):

$$\sum_i (p_i \times t_i \times W \times N_i),$$

with:

- p = periodicity (number of actions due to an IO i per year)
- t = number of hours per process per enterprise
- W = average cost per processing hour
- N = number of enterprises subject to IO i

The measurement of bureaucratic cost – first results

- 10.500 IOs (information obligations) identified on the federal level
- Measurement almost completed by March 31. 2008. Cost to enterprises: 30 billion euro per year **without overhead cost**
- Tax law contained the most expensive IOs, causing 15.6 billion euros or 53 % of total cost
- Company law (accounting obligations etc.) followed with 5,5 billion euros
- The majority of IOs (56 %) are caused by national legislation, but 57 % of the cost incurred is at least partly caused by international – mainly EU – legislation

Reduction Targets

- The **25-percent-reduction** target, set by the Netherlands as forerunner in bureaucratic reduction, was adopted by other European countries and the EU
- While the Netherlands have already reached their goal by 2007 and set a new target, Denmark is close to reaching its target
- The EU has set a 25%-reduction target by 2012
- Germany has set a 25%-reduction target by 2011, with the aim of reaching half of it by the election year 2009
 - As a reduction of 4 billion euros is contained in measures already passed or in preparation, a reduction of 12.5 % by 2009 is within reach
 - Electronic fulfillment of IOs is a crucial part of the measures

Reduction Targets

- Why 25 % reduction?
- There is no definitive answer,
- the Netherlands started with a reduction by a quarter and all other countries followed the example, so...
- Why not 25 %?

Unanswered Questions

- Bureaucratic cost in Germany due to IOs on the federal level is only 30 billion euros or 1.2 % of GDP according to first measurement
- With an additional 30 % for overhead cost in the enterprises and 20 % for state and municipality levels, cost amounts to 50 billion euros or 1.7 % of GDP at most
- Preliminary estimates were 85 to 90 million euros or 3.5 to 3.7 % of GDP (as in the Netherlands)
- In the UK, the estimate was only 1.5 % of GDP, but measurement results were 3.6 % including overhead (with 20.000 IOs identified!)
- In spite of using basically the same SCM, results can't be compared between countries!

Unanswered Questions

- Enterprises often can't feel the reduction contained in measures to reach the 25%-target
- Electronic procedures, which are responsible for a high percentage of the reduction so far, are part of the technological progress and no real achievement in reduction of bureaucracy
- Enterprises have a much broader view than the SCM, they identify bureaucracy with regulation itself, not only with "IOs"
- Without additional de-regulation, the reduction of bureaucracy as defined in the SCM remains a narrow-minded procedure
- **But:** De-regulation faces many obstacles as seen in the past decades

Additional measures to reduce bureaucracy

- **Sunset Legislation**
- **Less detailed regulation (more generalized solutions, e.g. lump sums)**
- **Benchmarking to strengthen efficiency in administrations**
- **Avoidance of double or triple regulation or controls**
- **More online administration (e-government)**
- **One-stop-agencies for entrepreneurs and enterprises in general**
- **Fixed deadlines for granting of permissions and licenses by authorities**

Thank you for your attention