Foundation for
Family Businesses

Efficiency and Regulation: Bureaucratic Burdens in International Comparison

Special Study on the Country Index for Family Businesses

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Summary of the main results

This special study accompanying the Country Index for Family Businesses took an in-depth look at the international comparison of locations in terms of bureaucracy and regulation. The analysis was carried out in three steps. The first part compares the expenditure of public resources across the 21 industrialised countries included in the analysis, assesses the quality of state governance processes and examines how efficiently public funds are used. The second part examines regulatory intensity in the areas of labour markets, foreign trade, business start-ups, the construction and real estate sectors, and public procurement. The third part focuses on two particularly important topics as regards limiting regulatory burdens: the digitalisation of public administration and the regulatory design of climate policy.

The findings of this comprehensive analysis can be summarised as follows:

- **Significant use of financial resources:** Germany is one of the countries that use a particularly high level of financial resources to provide public services, with the amount continuing to increase in recent years. This use of financial resources contrasts with a comparatively moderate use of personnel in the public sector, which is unique in comparison to other countries analysed with a high level of government spending. This unique situation is linked to high social transfers and the predominantly privately organised provision of healthcare services in Germany.
- **Strong focus on evidence:** German governance can be rated positively in terms of its focus on evidence due to the growing importance of regulatory impact assessments and evaluations. However, drawbacks arise due to the sometimes non-transparent and unsystematic involvement of interest groups affected by regulation.
- **Low efficiency of public spending:** The efficiency of Germany's significant level of public resource use appears to be low in international comparison. Germany does not "only" have the problem of providing its public services with the help of the substantial and growing utilisation of material and financial resources. In addition, the "return" on this investment in terms of location factors is not adequate. Other countries achieve the same with a significantly lower input, or offer better location factors than Germany with a comparable input of resources. All of this points to considerable inefficiencies in the provision of public services.
- **High level of regulation in most policy areas:** As regards Germany, the analysis of five specific fields confirms the picture of a highly regulated location by international standards. With the exception of the well-rated field of public procurement, Germany does not achieve more than an average ranking, at best, in any other area.

- **Regulatory burdens undermine business model:** The extremely high bureaucratic burdens as regards foreign trade are a particular burden for the German business model of a foreign trade-orientated economy. The heavy regulatory burden on business start-ups and the construction and real estate industry in an international comparison also undermines important German policy objectives such as strengthening start-up dynamics, increasing residential construction and boosting public and private investment.
- **Founding a business is particularly complex:** In Germany, founding a company is more difficult compared to the USA or the Western European average due to a higher number of requirements that have to be fulfilled, the resulting increase in time required, the higher costs and the higher minimum capital requirement.
- **Unique obstacles to property acquisition:** Not only are the additional costs of buying a property in Germany extremely high due to high and rising property transfer taxes. In addition, the bureaucratic burdens associated with such transactions are particularly pronounced – in Germany, the number of procedural steps and the associated fees are higher than in most other comparable countries. These weaknesses contribute to hindering not only property transactions, but also the necessary geographic mobility of labour.
- **Potential benefits of e-government not utilised:** Comparative indicators as regards the development of digital public service provision confirm that Germany clearly lags behind the digital pioneers. This is consistent with the unfavourable assessments of regulatory intensity outlined above. Public authorities in Germany are not yet utilising all available digital options consistently enough to reduce the compliance costs of regulation for companies.
- **Lack of market-based climate policy makes companies pessimistic:** As regards climate policy, it is clear that an ambitious climate policy does not necessarily have to be associated with negative consequences for companies. In the Scandinavian countries, which are particularly active on climate policy, a majority of companies even regard climate policy as an opportunity for their business models. This is achieved in these countries through a strongly market-based approach with broad use of a carbon pricing mechanism. In comparison, the highly regulatory approach in Germany goes hand in hand with a greater restriction of entrepreneurial freedom. This, in turn, may explain the greater degree of pessimism expressed by German companies, which see climate policy as more of a risk than an opportunity for business success.
- **Once-only principle in Austria:** Specific best practices show that digitalisation and climate policy can be implemented differently. Austria has implemented a successful "once-only principle" for citizens' and companies' reporting obligations.

- **Market-orientated climate policy in Sweden:** Sweden has implemented its ambitious carbon pricing as part of a comprehensive tax reform designed to protect citizens and companies from financial overburdening and at the same time incentivise decarbonisation with a high degree of technological freedom.

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