Is red tape a reason to quit the EU? Hardly

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*Business leaders – notably James Dyson and the CEO of JCB – have cited the scale of EU regulation as a reason to leave, and voters have been persuaded. Yet some of this criticism is unjustified, writes **Simeon Djankov**. Indeed, the UK was instrumental in setting up the European Commission's Regulatory Scrutiny Board, whose purpose is to clamp down on unnecessary red tape.*

European institutions are perceived to generate excessive red tape. Examples abound: in 2013, for instance, the European Commission proposed legislation to ban refillable jugs for olive oil to prevent restaurants from switching virgin oil for cheap alternatives. The proposal was abandoned after widespread ridicule. In 2012, another legislative proposal called for banning hairdressers from wearing high heels and jewellery. It, too, was scrapped.

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However much Brussels is reviled for burdensome regulations, it is primarily up to the national governments to regulate business and ensure that their regulation is competitive. Individual European countries have made steps to improve the environment for doing business. Half of the 25 countries in the world where it is easiest to do business are EU members, according to the 2016 World Bank's Doing Business survey. These are Denmark (3), United Kingdom (6), Sweden (8), Finland (10), Germany (15), Estonia (16), Ireland (17), Lithuania (20), Austria (21), Latvia (22), Portugal (23), and Poland (25). Malta is the lowest-ranked EU country, at 80 (of 189 economies).

Still, David Cameron has frequently described Brussels as a "huge" bureaucracy that "needed to be scaled back." [1] British corporate leaders have complained of heavy regulation and started publishing an annual report on the most egregious red tape burdening businesses.[2] Graeme MacDonald, the CEO of construction equipment maker JCB, one of Britain's largest manufacturing companies, argues:

> *"What is needed is a lot less red tape. … Some of it is costly for us and, quite frankly, ridiculous. Whether that means renegotiating or exiting [the EU], I don't think it can carry on as it is. It's a burden. … It's easier selling to North America than to Europe sometimes."[3]*

Some of this criticism is unjustified. In practice, EU-level regulations govern few areas of business activity. Yet the perception of bureaucratic Europe persists and European institutions have done little to dispel it. Red tape is frequently mentioned as one of the main reasons for Brexit.

The European Union has adopted various tools to address the quality and cost to businesses of its legislation. In March 2002, it adopted the “better regulation package,” which introduced widespread consultation and the use of impact assessments of new legislation. Since then, more than 1,150 impact assessments have been completed. In 2006, an Impact Assessment Board, a task force composed of European Commission officials, was created. Since 2010, the European Commission has also performed ex post evaluations on major pieces of legislation. Impact assessments are, however, not based on quantifiable indicators. Their cost is frequently higher than their possible benefits.

At the insistence of the UK government, the Impact Assessment Board was renamed the Regulatory Scrutiny Board, and its composition was changed in 2014. Rather than having nine rotating experts working in various parts of the European bureaucracy, the new board has four permanent members and two independent members, one of whom has an academic background. The “RegWatch” group, formed by the regulatory oversight agencies in the Netherlands, Germany, the UK, the Czech Republic, and Sweden, has advocated a completely independent board. This is just one example of the many ways in which the UK has used its clout to force positive change. Hopefully the UK will remain involved in making Europe a better place for business.

[1] Tom Parfitt, “Cameron slams EU red tape for harming trade – and urges Britain to do business elsewhere,” *Sunday Express*, July 24, 2015.

[2] #cutEUredtape, “Cut EU Red Tape: One Year On,” London, November 2014.

[3] Vincenzo Scarpetta, “Cutting Red Tape Must Be at the Heart of Any EU Reform Agenda,” *Open Europe*, May 18, 2015.

This post represents the views of the author and not those of the BrexitVote blog, nor the LSE.

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