

A background image showing a group of people in a meeting, with their hands and arms visible as they work on documents and use a laptop. The image is overlaid with a semi-transparent blue filter.

# Bureaucracy Cost Measurement and Reduction Policy

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This is a short summary, for the full paper (in Hebrew) see  
<https://www.idc.ac.il/he/research/aiep/pages/policy-papers.aspx>.

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# Aaron Institute for Economic Policy

## In the name of Aaron Dovrat z"l

The vision of the Aaron Institute for Economic Policy is to sustain economic growth and social strength in Israel, by researching, modelling and developing modern, innovative and up to date strategies and policy tools for the Israeli economy, based on up-to-date global knowledge.

All modern economies aim for economic growth, achieved through employment increase and a rise in workers' productivity. The Aaron Institute conducts economic research that yields proposals for innovative policy tools and reforms for promoting growth, employment and productivity. The goal of policy research is to influence monetary and fiscal policy, as well as to formulate long-term plans for economic and social issues and contribute to the narrowing of social gaps. The institute aims to affect professional discourse, spur discussion based on credible information and socio-economic research, which will ultimately provide tools that will support a growth path and create social resilience in Israel.

The main aim of the Aaron Institute for Economic Policy at the Tiomkin School of Economics is to develop policy strategies that eliminate weaknesses and empower the strengths of the Israeli economy. We propose broad reforms as well as policy changes to particular industry sectors. In this framework Israel's relative advantages in technologic innovation and advances in the public and services sectors can be maximized. At the Aaron Institute, we crucially define quantitative goals while involving some of the countries' best economists in research and policy paper discussion meetings.

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## Bureaucracy Cost Measurement and Reduction Policy

Inefficient bureaucracy increases uncertainty in doing business and acts as a de facto tax on business activity – a tax which adversely affects entrepreneurship, competitiveness, growth, and living standards. Internationally accumulated experience demonstrates that countries which sought to reduce their "bureaucracy tax" in order to enhance economic growth have started measuring the cost of bureaucracy inflicted on businesses, using a methodology which is commonly employed worldwide – Standard Cost Model (SCM). Bureaucracy cost measurement necessitates an institutional structure which ensures sustainable, professional measurement. The predominant institutional structure in developed countries over the last two decades consists of **a government department for regulatory optimization; an independent unit to monitor the measurement of bureaucracy costs; a professional agency in charge of systematic data collection; regulators in government offices appointed to execute the measurement of bureaucracy costs; and a government coordinator and an interministerial CEO committee tasked with supporting the attainment of national objectives and coordinating the various bodies involved in measurement and reduction of the cost of bureaucracy.**

The Israeli government had began building the necessary apparatus for bureaucracy cost reduction and regulatory optimization when it established the Department for Regulatory Optimization in the Prime Minister's Office<sup>1</sup> but failed to complete the process, particularly by declining to establish an independent unit authorized to monitor measurement, and to assign a professional agency with the task of data collection. Accordingly, the "bureaucracy tax" in Israel, as reflected in its ranking in both the Burden of Government Regulation Index and the Ease of doing Business Index, is significantly higher in comparison to developed countries.

In order to reduce the "bureaucracy tax" inflicted on businesses and to stimulate economic growth, our recommendation is to complete the creation of the institutional structure: establish an independent unit to monitor the measurement of bureaucracy costs which holds executive powers in regards to both new and existing regulation, and commission the Central Bureau of Statistics to carry out systematic collection of the data required to measure the cost of bureaucracy. In addition, we recommend that the governmental Department for

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<sup>1</sup> Government decision no. 2118 from October 22, 2014. See also: <http://www.pmo.gov.il/policyplanning/Regulation/Pages/RegulationA.aspx>

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Regulatory Optimization, drawing on the advisory powers of all regulatory officials, will act to optimize regulation **according to the professional advice of the monitoring unit.**

# 1. Summary and Conclusions

Inefficient bureaucracy increases uncertainty in doing business and acts as a de facto tax on business activity – a tax which adversely affects the economy in terms of entrepreneurship and competitiveness<sup>2</sup> as well as growth, wealth, and standard of living. Reducing the cost of bureaucracy is essential in order to encourage business activity, expand private investment, and stimulate economic growth. Reducing the cost of bureaucracy is particularly crucial in the age of global economy, which sees multiple countries compete to attract business ventures and capital investments from all possible sources.

Since the early 2000s, developed countries have pursued a policy of bureaucracy cost reduction which includes: systematic collection of the data required for measuring bureaucracy costs; systematic, monitored measurement of bureaucracy costs; setting a national objective of bureaucracy cost reduction and monitoring the attainment of that objective. The outcomes of this policy include reduction of bureaucracy costs by about 25% in five years, an increase of at least 1% in GDP, streamlining of public administration, and government policies and legislation aiming to reduce bureaucracy costs for businesses and households.

The premise of the policy designed to reduce the cost of bureaucracy was that **systematic, monitored measurement of bureaucracy costs is essential for reducing the administrative burden sustained by the business sector and the economy as a whole**. Implementation of this policy has been made possible by the development of a simple methodology for systematic, monitored measurement of bureaucracy costs, called Standard Cost Model (SCM), and the establishment of a structured mechanism for measurement and reduction of the cost of bureaucracy which includes:

- **A government department for regulatory optimization** appointed to execute government plans for measurement and reduction of the cost of bureaucracy.<sup>3</sup>
- **An independent unit assigned to monitor the measurement of bureaucracy costs**, whose task is to ensure that the measurement of bureaucracy costs by the regulatory officials in government offices is conducted according to SCM methodology.<sup>4</sup>

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<sup>2</sup> See Appendix B.

<sup>3</sup> In The Netherlands: IPAL;

In Germany: Better Regulation Unit,

<https://www.bundesregierung.de/resource/blob/998452/369932/e8763acc79014a129b3ef33cca2a18a4/2013-07-29-jb-2007-en-data.pdf?download=1>, page 13;

In the UK: Better Regulation Executive, <https://www.gov.uk/government/groups/better-regulation-executive>.

<sup>4</sup> Responsibilities of the unit supervising the measurement of bureaucracy costs in Germany:

- **A professional agency (Central Bureau of Statistics or a consultancy)** in charge of systematic data collection for measurement of bureaucracy costs according to SCM methodology.<sup>5</sup>
- **Regulatory officials in government offices** appointed to measure the existing (*ex post*) and projected (*ex ante*) costs of bureaucracy according to SCM methodology.
- **A government coordinator and an interministerial CEO committee** whose task is to help coordinating the various bodies involved in measuring and reducing the cost of bureaucracy.<sup>6</sup>

In Israel the government had begun building the necessary apparatus for bureaucracy cost reduction and regulatory optimization with the foundation of the Department for Regulatory Optimization in the Prime Minister's Office<sup>7</sup> but did not complete the process, particularly by **failing to establish an independent unit authorized to monitor measurement, and to assign a professional agency (Central Bureau of Statistics) with collecting the necessary data for the measurement of bureaucracy costs according to SCM methodology.** Accordingly, the "bureaucracy tax" in Israel, as reflected in its ranking in both the Burden of Government Regulation Index and the Ease of doing Business Index, is significantly higher in comparison to developed countries.<sup>8</sup>

In order to reduce the "bureaucracy tax" inflicted on businesses and to stimulate economic growth, our recommendation is to complete the creation of the institutional structure:

- Establish an independent unit to monitor the measurement of bureaucracy costs, which holds executive powers in regards to both new and existing regulation.

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[http://www.gesetze-im-internet.de/nkrg/\\_1.html](http://www.gesetze-im-internet.de/nkrg/_1.html),

[http://www.gesetze-im-internet.de/nkrg/\\_4.html](http://www.gesetze-im-internet.de/nkrg/_4.html);

Powers bestowed on the unit supervising the measurement of bureaucracy costs in Germany:

[http://www.gesetze-im-internet.de/nkrg/\\_5.html](http://www.gesetze-im-internet.de/nkrg/_5.html).

<sup>5</sup> Responsibilities of the Central Bureau of Statistics in Germany in regards to measurement of bureaucracy costs: [http://www.gesetze-im-internet.de/nkrg/\\_8.html](http://www.gesetze-im-internet.de/nkrg/_8.html);

German legislative documents regarding the selection of SCM as the measurement tool for bureaucracy costs: [http://www.gesetze-im-internet.de/nkrg/\\_2.html](http://www.gesetze-im-internet.de/nkrg/_2.html).

<sup>6</sup> Ireland: <https://dbei.gov.ie/en/What-We-Do/Business-Sectoral-Initiatives/Reducing-Administrative-Burdens/High-Level-Group-Reports/Report-of-the-Business-Regulation-Forum.pdf>, page 5, recommendation #6;

Germany:

<https://www.bundesregierung.de/resource/blob/998452/369932/e8763acc79014a129b3ef33cca2a18a4/2013-07-29-jb-2007-en-data.pdf?download=1>, page 12.

<sup>7</sup> Government decision no. 2118 from October 22, 2014. See also:

<http://www.pmo.gov.il/policyplanning/Regulation/Pages/RegulationA.aspx>

<sup>8</sup> See appendices B and C.

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- Commission the Central Bureau of Statistics to carry out systematic collection of the data required to measure the cost of bureaucracy.

In addition, we recommend that the governmental Department for Regulatory Optimization, drawing on the advisory powers of all regulatory officials, will act to optimize regulation **according to the professional advice of the monitoring unit.**