



CUTTING BUREAUCRATIC COSTS: A LEGISLATIVE AND ADMINISTRATIVE OVERHAUL

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This is a translated version of the original German-language chapter "Bürokratiekosten senken – Gesetzgebung und Verwaltung modernisieren", which is the sole authoritative text. Please cite the original German-language chapter if any reference is made to this text. This translation was generated using AI.

KEY MESSAGES

- Dissatisfaction with bureaucratic requirements has recently increased in Germany. Previous solutions have not brought any noticeable improvements.
- Complex information requirements, inefficient administration and lengthy approval procedures imply that the bureaucratic costs borne by companies are higher than necessary.
- The automation of information requirements and the acceleration of administrative procedures through the use of digital technology and artificial intelligence could cut bureaucratic costs. Consideration of administrative enforcement already during the legislation process could result in more practical regulation.

EXECUTIVE SUMMARY

Firms are subject to **statutory information requirements and approval procedures associated with bureaucratic costs**. Business surveys show that dissatisfaction with bureaucratic requirements and administrative performance in Germany has grown significantly in recent years. Bureaucracy imposes direct costs on companies and incurs **follow-up costs** owing to **disincentives for market entry and investment**.

The cost of bureaucracy can be **higher than necessary to achieve its objectives** for a variety of reasons. For example, the enforcement of laws can lead to unnecessary bureaucratic costs if approval procedures take a long time or administrative processes are fragmented between different authorities, e.g. when businesses are set up. Furthermore, it is not always possible to meet information requirements in a digital form.

Selective measures have been taken over the past ten years to cut bureaucratic costs. These include ex-ante instruments such as digital checks and ex-post instruments such as various Bureaucracy Relief Acts. Nevertheless, it has **not yet been possible to noticeably lower** bureaucratic costs.

Reforms affecting a large number of firms and business activities could bring **much greater relief**. For example, the **fulfilment of information requirements could be (partially) automated** by creating the necessary legal framework and digitalising administrative processes across the board. Fragmented processes could be replaced by **one-stop shops**. **Centralised data retrieval by public authorities** and, consequently, a reduction in redundant information requirements (once-only principle) could be achieved through the swift modernisation of data registers. Greater use of **deemed approvals** could speed up approval procedures. Approvals would be deemed to have been granted if the competent authority does not decide on an application within a certain period of time.

In addition, **any further increase in bureaucratic costs could be curbed already during the legislation process**. To this end, the mandate of the Regulatory Control Council could be expanded to include quality checks of draft laws with regard to their user-friendliness and enforceability. The implementation of laws by public administration could be improved by **measuring administrative performance** and establishing a system of key performance indicators. **Competition between these authorities could be strengthened** by publishing these performance indicators on a digital dashboard. This could, for example, improve the visibility of high-performing municipalities and incentivise businesses to settle in the area.

I. INTRODUCTION

175. A **system of government** that **protects** citizens and businesses **from despotism and unfair practices** and ensures a predictable framework for their activities is a **key prerequisite for long-term prosperity** (Acemoglu and Robinson, 2010). Public administration guarantees this framework by enforcing existing law. Many business activities are therefore subject to government approval procedures and statutory information requirements. The work involved can be summarised under the heading of **bureaucracy**. [↗ TABLE 17](#) Inefficient bureaucracy has a negative impact on the appeal of a location and can impair the productivity growth of an economy (Fadic et al., 2019; Dörr et al., 2024). [↗ ITEMS 196 FF.](#) The bureaucratic costs of achieving a given objective should be as low as possible. The **objectives** of a law **are not scrutinised as part of any such efficiency calculation**.
176. **Bureaucracy imposes direct and indirect costs on businesses.** [↗ ITEMS 182 FF.](#) Direct bureaucratic costs arise from the need to comply with legislation and include, for example, the cost of preparing VAT returns. Indirect bureaucratic costs arise when legal requirements influence corporate decisions on aspects such as investment and market entry. [↗ ITEMS 191 FF.](#) Setting up a business in Germany, for example, is much more complex than doing so in other European countries, which is likely to curb the number of start-ups in Germany. [↗ BOX 10](#) Indirect costs reflect the resulting reduction in value added. [↗ ITEMS 196 FF.](#)
177. The **direct bureaucratic costs regularly incurred by information requirements** relating to **legislation of the German federal government** amount to **€65.0 billion per year** (Federal Statistical Office, 2025a). There are no comparable estimates of the bureaucratic costs arising from EU regulations [↗ ITEM 216](#) and from the requirements of Germany's federal states and municipalities. [↗ ITEM 214](#) According to a business survey, however, only around a third of all bureaucratic requirements are attributable to the federal government (Demmelhuber et al., 2024). [↗ ITEM 183](#) The **indirect cost of bureaucracy** – owing to factors such as lower **investment** – is not recorded statistically and is **difficult to estimate**. [↗ ITEMS 191 FF.](#)
178. Germany ranks high in various international comparisons of the quality of government organisation (European Commission, 2021a; Our World in Data, 2024; World Bank, 2024). According to surveys conducted in Germany, however, satisfaction with bureaucratic requirements and administrative performance is very low (DIHK, 2023; Demmelhuber et al., 2024). This could indicate that although firms' framework for action has been maintained, it is perceived by the public as being associated with **very high administrative burdens and excessive bureaucratic costs**. [↗ ITEMS 182 FF.](#) [↗ CHART 32 RIGHT](#) Deregulation can also increase the complexity of requirements, for example if an outright ban is replaced by more nuanced regulations that allow limited exceptions (Knill et al., 2024a). [↗ ITEM 213](#)
179. Problems can arise **both in the drafting of new requirements and in their implementation**, which increases the bureaucratic costs borne by the target

group of such regulation. Laws that **are not written in a way that is understandable for the target group**, for example, can push up implementation costs associated with legal advice or may be implemented incorrectly. [↘ ITEM 206](#) Public administrations' scrutiny of applications can also entail long waiting times for businesses because, for example, administrative processes are not digitalised or such authorities do not have sufficient staff. [↘ ITEMS 222 FF.](#)

180. Various **instruments** are already being used at the federal level **to cut bureaucratic costs**. Ex-ante instruments [↘ ITEMS 231 FF.](#) are used when drafting new legislation to improve its practicability. One example are **digital checks**. [↘ ITEMS 232 FF.](#) These are intended to ensure that new laws are formulated in such a way that they can be implemented digitally and at low cost – as in the case of applications for welfare benefits. Ex-post instruments [↘ ITEMS 233 FF.](#) are used to review and adapt existing requirements. Such adjustments have been made over the past ten years – for example, through four **Bureaucracy Relief Acts**. [↘ ITEM 234](#) These contain various measures to cut bureaucratic costs, such as replacing submission requirements with retention requirements and raising threshold values for the application of requirements.
181. Although the instruments previously used to reduce bureaucracy point in the right direction, they only have a selective effect and therefore only impact a small proportion of total bureaucratic costs in Germany. More comprehensive reforms that simplify a large number of requirements and administrative processes **could have a noticeable impact on economic growth** (Falck et al., 2024). To achieve a wide-ranging reduction in bureaucracy, it is crucial to cut existing bureaucratic costs further [↘ ITEMS 242 FF.](#) and to prevent them from rising (again) in the future. [↘ ITEMS 249 FF.](#) Greater involvement of users could support this process. [↘ ITEMS 254 FF.](#) Measures should also be taken to modernise the culture of public administration. [↘ ITEMS 256 FF.](#)

II. CURRENT SITUATION: COSTS CAUSED BY BUREAUCRACY

182. **Bureaucratic costs** can be divided into **direct and indirect costs**. [↗ TABLE 17](#)
 Direct bureaucratic costs arise from **the need to comply with information requirements**. Indirect bureaucratic costs [↗ ITEMS 191 FF.](#) result from **distorted**

↗ TABLE 17

Bureaucratic costs as defined in this chapter

Examples of direct and indirect bureaucratic costs

	Area	Designation of the obligation	Act ¹
Direct bureaucratic costs ²	Labour market	Obligation for the employer to receive and process the notification of incapacity for work	EntgFG
	Income support	Billing for lunch catering services	SGB II
	Vocational training	Keeping a training record by apprentices	BBiG
	Research	Application for a certificate of favouring a research and development project	FZuIG
	Nutrition and food safety	Combined text-picture warning on the packaging of tobacco products	TabakerzV
	Agriculture, forestry and fishing	Obligation to record operational data	DüV
	Health	Compulsory prescription for medicine, that contain certain substances, for example	AMG
	Migration and integration	Employer's obligation to register before a foreigner takes up employment	BeschV
	Justice	Retention requirement for reference files (active document storage)	BRAO
	Consumer protection	Information requirement for distance selling contracts	BGB
	Climate and energy	Application for authorisation for the construction and operation of installations requiring authorisation	BlmSchG
	Waste, water soils	Installation of information boards by distributors of secondary packaging about the right to return the packaging free of charge	VerpackV
	Area	Effecting...	Source/example
Indirect bureaucratic costs	Microeconomic effects	... investment decisions	Pellegrino and Zheng (2024)
		... market entry and exit	Tomasi et al. (2023)
	Macroeconomic effects	... long-term growth	Djankov et al. (2006)
		... deployment of labour	Item 202
	Efficiency of public administration	... duration of application and authorisation processes	Item 222
		... fragmentation of processes	Item 194

1 – EntgFG-Continued Remuneration Act, SGB II-Second Book of Social Law, BBiG-Vocational Training Act, FZuIG-Research Allowances Act, TabakerzV-Tobacco Products Regulation, DüV-Fertiliser Regulation, AMG-Medical Products Act, BeschV-Employment Regulation, BRAO-Federal Lawyers' Act, BGB-Civil Code, BlmSchG-Federal Emission Control Act, VerpackV-Packaging Regulation. 2 – The measurable time and costs incurred by firms in complying with a legal requirement to provide information.

Sources: Federal Statistical Office, own depiction
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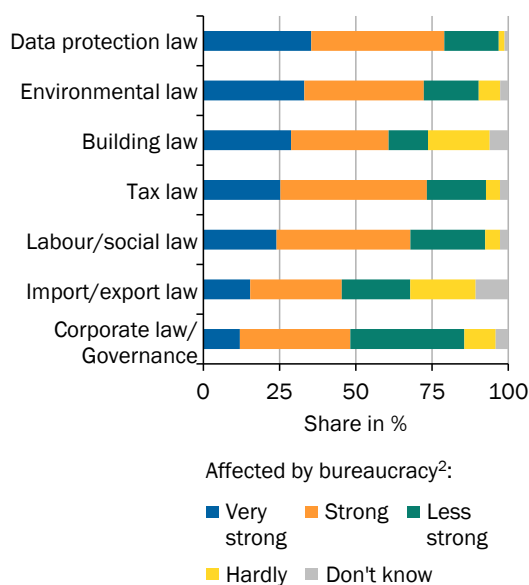
business decisions. Both costly information requirements and lengthy interactions with the public administration – which complicate entrepreneurial activities – may be responsible for this. Firms questioned in a business survey stated that data protection laws and environmental legislation generate a particularly high level of bureaucracy. [↗ CHART 32 LEFT](#)

There are no comprehensive estimates of the level of bureaucratic costs in Germany. Official estimates are only available for direct bureaucratic costs resulting from information requirements under federal law. [↗ ITEM 183 ↗ BOX 8](#) The data situation is even worse in other countries, where not even comparable estimates are generally available. Nevertheless, selected indicators from the World Bank's Ease of Doing Business Index provide an international comparison of bureaucratic costs. [↗ ITEMS 188 FF.](#) Germany performs slightly better than France and Spain but significantly worse than Sweden and Denmark in this comparison.

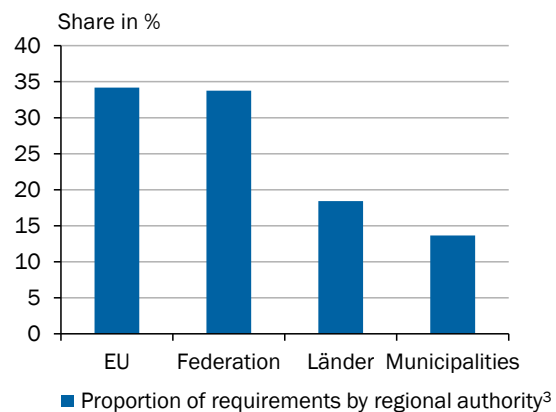
[↗ CHART 32](#)

Firm survey¹: Bureaucracy burden by legal area and regional authority

Data protection creates the greatest burden of bureaucracy



Around a third of the bureaucratic requirements stem from the federal government



1 – The companies were divided into three groups of approximately equal size, with 146 small companies (≤ 65 employees), 146 medium-sized companies (between 66 and 265 employees) and 145 large companies (≥ 266 employees).

2 – Proportion of answers to the question "Which legal areas of your company are affected by bureaucracy and to what extent?". 3 – Proportion of answers to the question "What percentage of the requirements/regulations that affect your company originate from...". Further references, e. g. to German implementation laws for EU directives, were not given in the question. Indications are based on purely subjective impressions of participants. No further distinction was made between EU regulations and EU directives in the case of EU laws.

Source: Demmelhuber et al. (2024)

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1. Bureaucratic costs in Germany

183. The direct **bureaucratic costs** regularly incurred by firms **as a result of federal requirements** totalled around €65.0 billion in 2024 [↗ BOX 8](#) or 1.5 % of GDP. Around 76 % of this total is accounted for by personnel costs and the rest by the cost of materials (Federal Statistical Office, 2025a). As this estimate only takes into account costs arising from information requirements under federal law, it represents the lower limit of the direct bureaucratic costs incurred by firms. Respondents to a business survey on the topic of bureaucratic costs stated that **around a third of all requirements originate from the German government** (Demmelhuber et al., 2024). [↗ CHART 32](#) In addition, there are **bureaucratic costs** attributable to the **European Union (EU)** regulations that do not have to be transposed into national law by another legal act, as well as costs arising both from requirements of **state-level legislation** and at the level of municipalities. If extrapolated proportionally, the total direct costs arising from information requirements would amount to €193 billion. The indirect bureaucratic costs are difficult to quantify. [↗ ITEMS 197 FF.](#)

[↗ BOX 8](#)

Background: the Federal Statistical Office's estimate of bureaucratic costs

The Bureaucracy Cost Index (BKI) has been calculated monthly by Germany's Federal Statistical Office since 2012. [↗ CHART 33](#) It documents the financial burden imposed by bureaucratic costs arising from information requirements under federal law. The BKI reflects the impact of government action on bureaucratic costs. Cyclical changes in the number of firms affected as well as general wage and salary increases are not represented in the index (Vorgriemler, 2013). **The significance of the BKI in terms of the overall cost of bureaucracy is limited** as it only covers regular information requirements under federal law. [↗ ITEM 186](#)

The distribution of bureaucratic costs measured by the BKI is skewed. The ten most significant information requirements, which account for less than 0.1 % of all information requirements under federal law, incurred 51.1 % of the total costs recorded in the BKI as of 31 March 2025 (Federal Statistical Office, 2025a). [↗ TABLE 18](#) The information requirements generating the highest macroeconomic costs include issuing and storing invoices and general bookkeeping. The information requirements imposed under tax law and commercial law have the greatest impact on the BKI, as almost all firms are affected by them in numerous business transactions. Information requirements that are only relevant to individual industries or only affect a small number of firms each year play a minor role. At the same time, it should be noted that some of the **legal information requirements directly benefit businesses**. Bookkeeping and the storage of invoices, for example, are also in the interest of firms so they can trace business transactions transparently.

The standard cost model is used to estimate the **bureaucratic costs** incurred under federal law. This enables bureaucratic costs to be quantified in accordance with uniform standards. The official database on bureaucratic costs in Germany is therefore more comprehensive than in many other countries, although there are still gaps. For example, indirect costs incurred owing to waiting times for approval procedures are not recorded. EU law is only taken into account if it has been transposed into national law by another legal act. This generally applies to directives but not to EU regulations (Vorgriemler, 2013). Regulations accounted for around 70 % of all legal acts in the EU's ordinary legislative procedure during the period from 2019 to 2024. [↗ CHART 40](#)

TABLE 18

The ten information requirements¹ with the highest bureaucratic costs

Bureaucracy cost index is determined by tax and commercial law requirements

Designation of the requirement	Act ²	Paragraph	Regular bureau- cratic costs ³	Share of total regular bureau- cratic costs	Cumu- lative share
			Billion euros	%	
Issuing invoices	UStG	§ 14 section 2	5.0	7.7	7.7
General accounting	HGB	§ 238	4.9	7.5	15.2
Storage of invoices	UStG	§ 14b section 1	3.7	5.8	21.0
Requirement to prepare annual and consolidated financial statements, audit and disclosure for all corporations	HGB	§§ 264, 316, 325	3.3	5.1	26.1
Submission of the VAT return	UStG	§ 18 section 3 sentence 1	3.1	4.8	30.9
Collective notifications for large and million-euro loans for borrower units included in the prepared collective notification (non-trading book and trading book institutions as well as superordinate companies pursuant to § 10a section 2 sentence 3 KWG)	KWG	§ 13 section 1 sentence 2, § 14 section 1 sentence 1 and section 3, § 10a section 2 sentence 3	3.0	4.6	35.5
Key date inventory	HGB	§ 240	2.9	4.4	39.9
Requirement to declare trade tax	GewStG	§ 14a sentence 1	2.7	4.1	44.0
Identification and recording requirement when concluding a contract for a long-term business relationship	GwG	§ 8 section 1, 2 and 4 in combination with § 11 section 4, § 10 section 3 no. 1	2.4	3.7	47.7
Corporation Tax return	KStG	§ 31 section 1 sentence 1 in combination with § 25 section 3 sentence 1 EStG	2.2	3.4	51.1

1 – The data is based on the federal information requirements in force as of 31 March 2025. Changes to information requirements that had not yet come into force on the reporting date are not shown. 2 – UStG-Value Added Tax Law, HGB-German Commercial Code, KWG-Act Regulating Banking and Credit Business, GewStG-Trade Tax Law, GwG-Act on Tracing Profits from Serious Crime, KStG-Corporation Income Tax Law, EStG-German Income Tax Act. 3 – Regular bureaucratic costs that are foreseeably incurred by companies on a regular basis over a period several years. Changes in one-off bureaucratic costs are not taken into account.

Sources: Federal Statistical Office, own calculations
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In order to estimate costs, all requirements are **broken down into recurring tasks** – such as filling an application. In order to map the effort involved in an activity, firms are asked about their work steps and the associated time required, as well as their cost of materials. The total costs are calculated by multiplying the cost per activity by the frequency of performance per actor (e.g. a firm) and the number of actors affected (Vorgriemler and Blasch, 2009). The approach used to estimate the cost of individual information requirements appears plausible, as a study by Boockmann et al. (2020) shows. This study estimated the time required to document the start, end and duration of daily working hours in accordance with Section 17 of Germany's

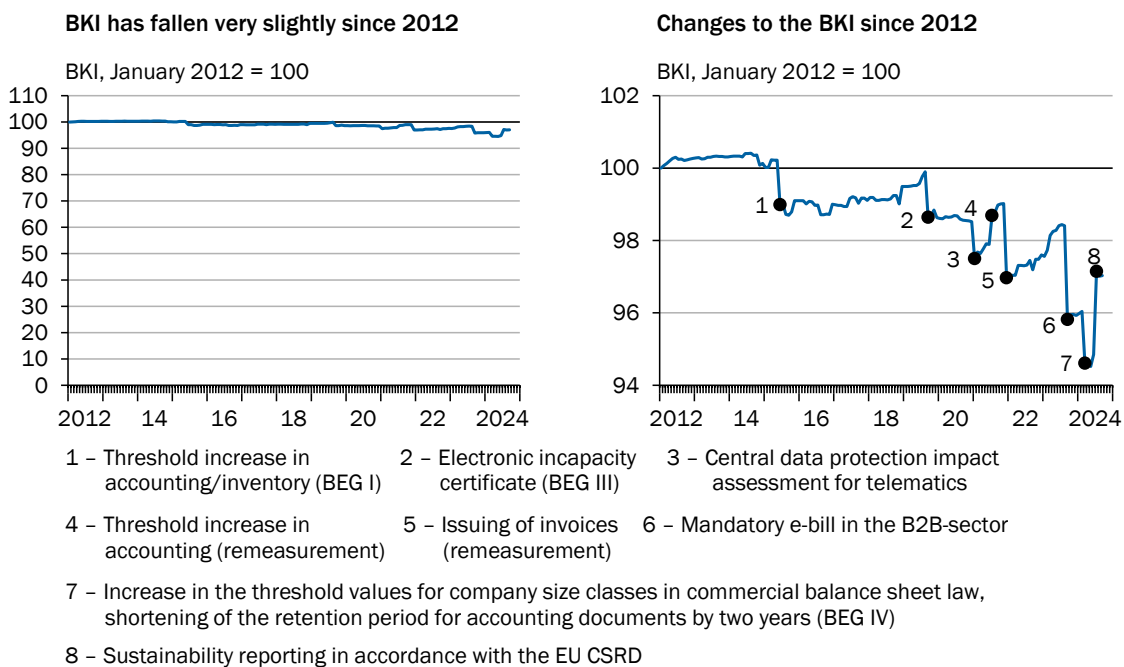
Minimum Wage Act. A representative survey of 3,000 employers in the winter of 2019/2020 revealed that the time required totalled 11.2 million hours per year. On the other hand, the Federal Statistical Office (2025a) estimates the additional time required as at 31 December 2021 to be 10.3 million hours per year.

In addition to bureaucratic costs, the Federal Statistical Office also records the **compliance costs incurred by new federal legal requirements**. Macroeconomic compliance costs comprise all costs arising under the law. For instance, these include the cost of installing new heating systems as a result of Germany's Heating Act (Bundesregierung, 2024a). **Bureaucratic costs are a subset of compliance costs.**

184. The **Bureaucracy Cost Index (BKI)** is the only administrative instrument for documenting changes in bureaucratic costs in Germany over time. [↪ CHART 33](#) It has recorded **changes in regular bureaucratic costs attributable to federal requirements** since 2012. [↪ BOX 8](#) Since it was introduced, the BKI has fallen slightly by around three index points from 100 points in the baseline year of 2012. [↪ CHART 33 LEFT](#) A few measures have been the main reasons for this decline. [↪ CHART 33 RIGHT](#) These include the introduction of electronic certificates of incapacity for work in 2019 and mandatory e-invoicing of sales between domestic firms in 2023. Given the high number of cases at the time of the relevant decisions, these measures have had a major impact on the BKI. [↪ BOX 8](#)
185. This moderate decline in the **BKI is not consistent with the public's perception of the levels of bureaucracy costs over time**. Business surveys

[↪ CHART 33](#)

Bureaucracy cost index (BKI) of the Federal Statistical Office¹



1 – Changes to charges always take effect in the BKI at the time a regulatory proposal is approved by the Federal Cabinet, not only when the provision comes into force.

Source: Federal Statistical Office

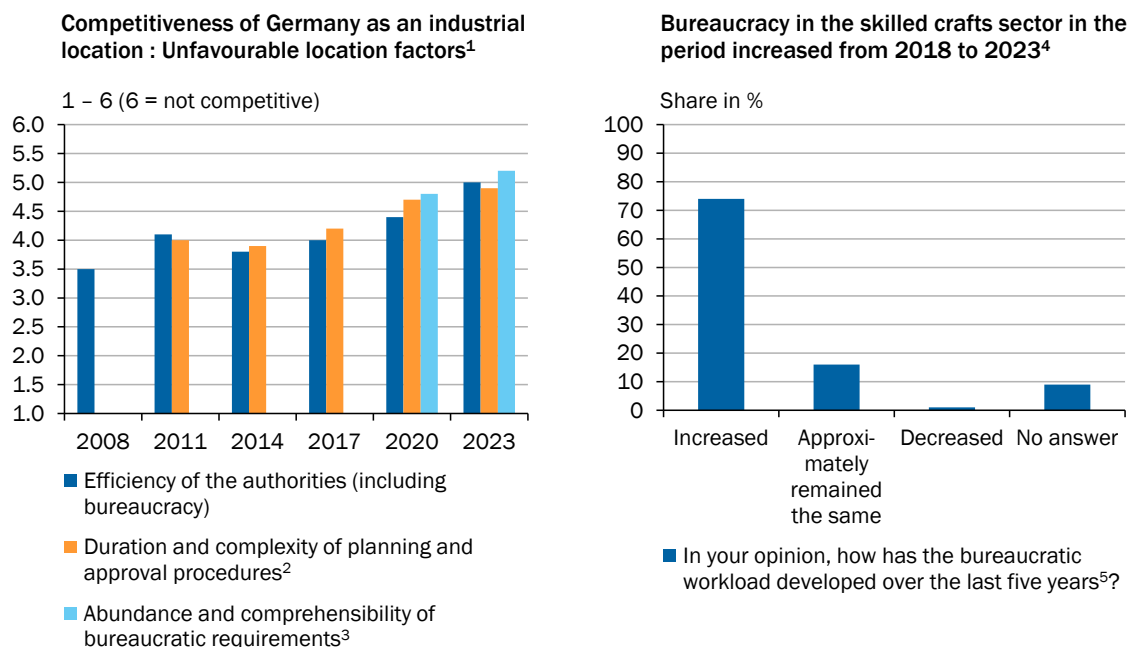
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indicate that the burden of bureaucracy has been increasing since around the mid-2010s. [↗ CHART 34 LEFT](#) A survey conducted by the German Chamber of Industry and Commerce (DIHK, 2023) to assess location factors in 2023 revealed that the category entitled ‘Abundance and comprehensibility of bureaucratic requirements’ was the weakest factor with a score of 5.2 (poor). This indicator has deteriorated further compared to the 2020 survey. Assessments of the factor entitled ‘Duration and complexity of planning and approval procedures’ have also deteriorated over the same period. Surveys conducted by the German Confederation of Skilled Crafts (ZDH, 2023) also show a growing burden of bureaucracy. [↗ CHART 34 RIGHT](#) These surveys reveal that 74 % of the participating skilled-craft businesses believe that the burden of bureaucracy increased between 2018 and 2023 – not least owing to constant adjustments to new regulations. [↗ ITEM 213](#)

186. There may be several reasons for the **discrepancy between the BKI and the results of business surveys**. The BKI only captures regular information requirements under federal law and, consequently, represents merely a subset of total bureaucratic costs. [↗ ITEM 183](#) One-off bureaucratic costs that are only incurred when an information requirement is introduced or amended [↗ CHART 35 LEFT](#) are not included. In addition, the actual cost of complicated and new requirements in particular may be underestimated by the standard cost model. For example, calculations of bureaucratic costs generally do not take into account the costs incurred through the use of auditors and legal advisers (Board of Academic Advisors to the BMWK, 2025).

[↗ CHART 34](#)

Survey data: Assessment of bureaucratic requirements in Germany



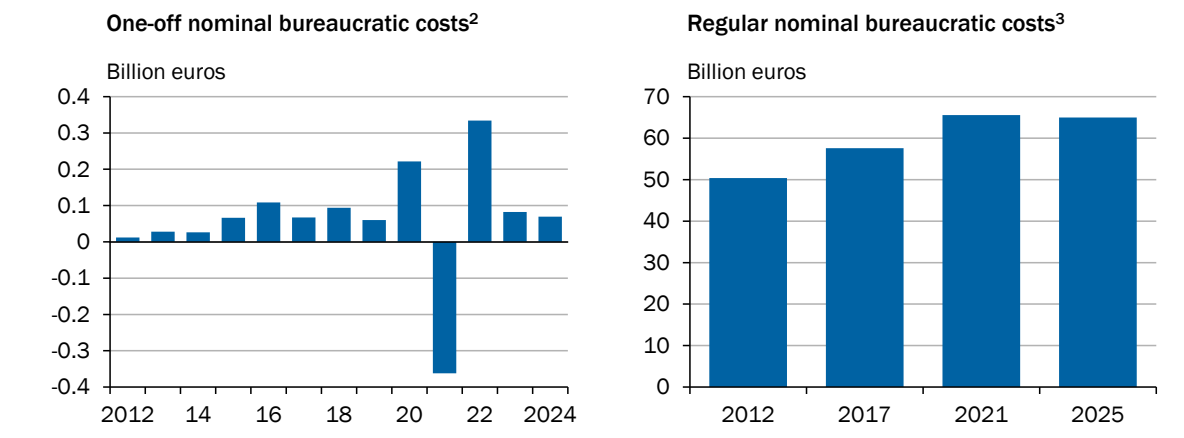
1 – Triennial DIHK surveys in the Industry Network regarding the question: „With regard to the competitiveness of Germany as an industrial location, how do you rate the following location factors in an international comparison on a scale of 1 (clear competitive advantage) to 6 (not competitive)?“. 2 – Data only available from 2011 onwards. 3 – Data only available from 2020 onwards. 4 – Special survey „Bureaucracy burden in the skilled crafts sector“ with 10,630 participating skilled crafts businesses. 5 – The survey was held in the first quarter of 2023.

Sources: DIHK, ZDH (2023)

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➤ CHART 35

Development of bureaucracy costs under federal law since 2012¹



1 – Data basis as of 31 March 2025, showing all requirements in force at the respective time. 2 – One-off bureaucratic costs for firms when introducing or changing a requirement (adjustment costs). For 2021: Including costs to the Act on the Digital Modernisation of Care and Nursing. For 2022: In part due to the Regulation on Short-Term Measures to Secure the Energy Supply. 3 – Regular bureaucratic costs that are foreseeably incurred on a regular basis at intervals of several years. Deadline for the year 2012: 1 January, for the years 2017 and 2021: 31 December in each case and for the year 2025: 31 March.

Sources: Federal Statistical Office, own calculations

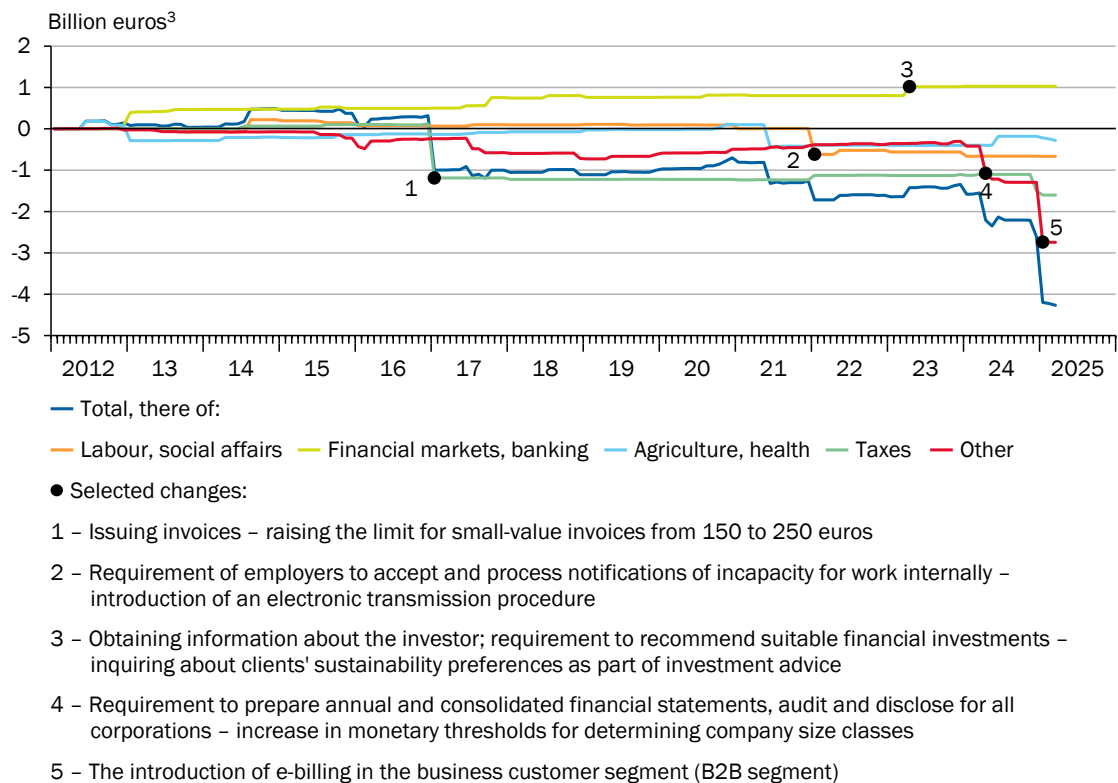
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The public's perception is that indirect bureaucratic costs ➤ [ITEMS 191 FF.](#) – such as impairment of investment activity or a lack of speed and service mentality in administrative affairs ➤ [ITEM 204](#) – also play a role (Demmelhuber et al., 2024). These are not captured by the BKI either. In addition, the **public's definition of bureaucracy** may be **broad**er than the BKI definition. According to a survey of small and medium-sized enterprises (SMEs), bureaucracy also includes requirements that lie beyond the direct control of government. A few examples are regulatory requirements of self-regulating business organisations (chambers, guilds), standardisation institutes and employers' liability insurance associations (Holz et al., 2019).

- 187.** While the **BKI fell slightly** between 2012 and 2024, ➤ [CHART 33](#) **the number of information requirements** imposed under federal law rose from 10,073 to 12,142 between 2012 and 31 March 2025 – an **increase of 20.5 %**. ➤ [CHART 38](#) ➤ [BOX 8](#) The bureaucratic costs incurred on a regular basis amounted to €50.4 billion as at 1 January 2012 and €65.0 billion as at 31 March 2025 (Federal Statistical Office, 2025a). ➤ [CHART 35 RIGHT](#) According to the Federal Statistical Office, one-off bureaucratic costs are relatively low compared with regularly incurred bureaucratic costs. ➤ [CHART 35 LEFT](#)

Since 2012, bureaucratic costs have fallen the most in the area of taxes, partly because the limit on low-value invoices has risen from €150 to €250. ➤ [CHART 36](#) By contrast, financial markets and banks have seen the largest increase owing to various individual measures such as the requirement to enquire about customers' sustainability preferences when providing investment advice.

↗ CHART 36

Change in regular bureaucratic costs¹ by area since 2012²

1 – Regular bureaucratic costs that are foreseeably incurred by companies on a regular basis over a period of several years. Changes in one-off bureaucratic costs are not taken into account. 2 – Date of introduction or entry into force of a requirement. 3 – In prices of when the change comes into force.

Sources: Federal Statistical Office, own calculations

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2. International comparison of bureaucratic costs

188. An international comparison of bureaucracy is difficult because there is no standardised database. Falck et al. (2024) used selected indicators from the World Bank's **Doing Business database** and **summarised** them in an **index**. This refers to the time spent on fulfilling various administrative procedures. According to this index, **Germany ranks in the middle of a group of comparable countries in terms of bureaucracy**. ↗ CHART 37 LEFT Sweden and Denmark perform noticeably better. France achieved a **significant improvement** during the period from 2006 to 2011 because the time required to register assets was accelerated. ↗ CHART 37 LEFT There are various strategies for reducing bureaucracy internationally. ↗ BOX 9

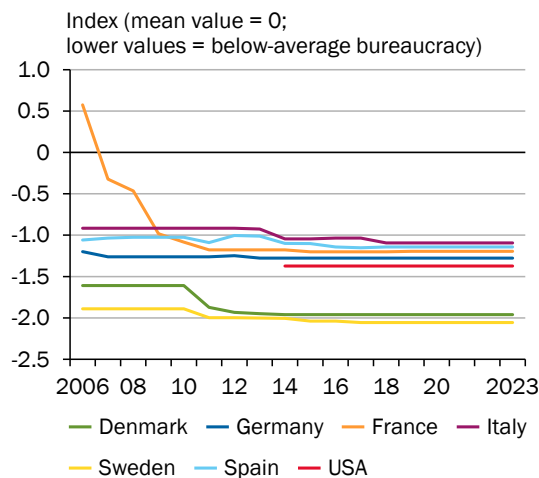
189. In 2019, Denmark and Sweden were consistently among the leaders in the selected subcategories of the Falck et al. index (2024). ↗ CHART 37 RIGHT France and Italy perform relatively poorly in the field of building permits. **Germany scores particularly poorly within the comparison group in terms of property registration and tax returns.**

[↗ CHART 37](#)

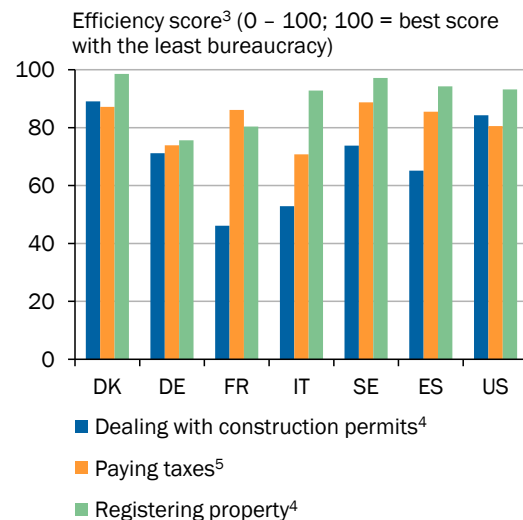
International comparison of bureaucracy

Germany in midfield – Scandinavian countries are noticeably more efficient

Development of the bureaucracy index according to Falck et al. (2024)¹



Comparison of individual subcategories for 2019 in selected countries²



1 – The bureaucracy index is made up of several dimensions that are intended to reflect the bureaucratic burden in the World Bank's Doing Business dataset. It takes into account the time required to dealing with construction permits (days and number of bureaucratic processes), the effort required to register property (days and number of bureaucratic processes), the time required for paying taxes (hours per year and frequency per year) and the time required for imports and exports of goods and services (number of documents required, days for customs clearance). The lower the value of the index, the lower the measured bureaucratic burden. The index is formed by first standardising each of the variables so that all variables have a mean value of 0 and a standard deviation of 1. The sum of the standardised variables is then combined to form a bureaucracy index. 2 – DK-Denmark, DE-Germany, FR-France, IT-Italy, SE-Sweden, ES-Spain, US-USA. 3 – The efficiency score for the time required/needed is a benchmarking of economies in terms of best regulatory practice for the indicators. The score ranges from 0 to 100, with 0 the worst and 100 being the best regulatory performance. 4 – Measured in days. 5 – Measured in hours per year.

Sources: Falck et al. (2024), World Bank
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[↗ BOX 9](#)

Best-practice examples of bureaucracy reduction and administrative modernisation at international level

Many countries are actively pursuing strategies to cut bureaucratic costs. The EU, for example, has created a **central office** (one-stop shop) to perform VAT obligations for cross-border deliveries (BZSt, 2025a), which should reduce the bureaucratic burden on businesses. [↗ BOX 10](#) In Denmark, **e-government – which uses digital technology to cut bureaucratic costs** – is well advanced. [↗ CHART 44](#) One element of Denmark's success is the **mandatory use of digital communication channels and self-service for citizens and businesses** since 2014. Studies show that Denmark has achieved significant efficiency gains in administration through the wide-ranging use of digital technology (Distel et al., 2020). Crucial to this success have been clear goals, mandatory digital communication, the involvement of all levels of government, and cooperation between public, private and civil-society stakeholders. **In the US state of Pennsylvania, a one-year pilot programme on the use of ChatGPT in public administration was carried out with 175 participants** (OpenAI and Commonwealth of Pennsylvania, 2025). They were trained and asked to independently explore possible use cases within the context of their work. No particular use cases were specified. The most common applications included navigating text-based infor-

mation such as researching, writing, brainstorming and summarising. The main barriers were inaccuracies in results, difficulties in changing work habits, lack of time to learn how to use ChatGPT, the complexity of the tool, and data protection concerns. Overall, 85 % of participants reported having had a positive experience and estimated a daily time saving of 95 minutes.

III. EFFECTS OF BUREAUCRATIC COSTS

190. Bureaucratic costs influence real economic activity through various channels. **At a microeconomic level**, for example, they distort firms' investment decisions and decisions on whether to enter or exit the market. **At a macroeconomic level** they influence the accumulation of capital and can contribute to the misallocation of factors of production, which also has a negative impact on total factor productivity (TFP).

1. Microeconomic effects

191. In addition to the direct cost of compliance [↗ ITEM 183](#), **government requirements** can also **incur indirect costs by distorting businesses' decisions**. Firms, for example, can reduce their capital expenditure in order to avoid direct bureaucratic costs such as approval procedures and information requirements. This should be distinguished from adjustments made by businesses in order to implement government requirements (e.g. environmental legislation). Distortions arise when value added is not realised compared with a situation without any bureaucratic costs, even though it would be permissible according to the purpose of the regulation concerned. In this sense, indirect bureaucratic costs are **opportunity costs**.
192. Bureaucracy is considered to be a major obstacle to investment in Germany. 63 % of the firms surveyed in a recent study stated that bureaucracy had a negative impact on their investment activity (Demmelhuber et al., 2024). **Bureaucracy can cause inefficiently low corporate investment in various ways**. For example, bureaucratic costs – similar to a specific tax – can make production and capital investment more expensive (Pellegrino and Zheng, 2024). [↗ ITEM 201](#) They can also make it more difficult for new competitors to enter the market. [↗ ITEM 193](#) Consequently, existing firms invest less in order to extract higher profit margins by reducing their supply (Égert, 2018). In addition, lengthy approval procedures for the construction of new production facilities, for example, can make it more difficult for businesses to expand.

Several empirical studies (Alesina et al., 2005; Égert, 2018) estimate the **negative effect** of indicators measuring market-entry barriers on capital investment in OECD countries. These indicators take into account aspects such as the **burden placed on firms by administrative processes** and the **complexity of government requirements**. The investment effects are **economically signi-**

ficant: according to Alesina et al. (2005), capital expenditure – which averages around 6 % of the capital stock in the sample – would be 1.7 to 2.4 percentage points higher in the long term if barriers to market entry, including regulatory requirements and bureaucratic costs, were lowered from the third quartile to the first quartile of the sample.

193. In addition, **bureaucratic hurdles** – similar to regulation in general – are likely to **inhibit the establishment of new businesses** (market entry) (Scarpetta et al., 2002; Klapper et al., 2006; Tomasi et al., 2023). Examples of this are the start-up costs for corporations and partnerships, land registry entries and building permits. This affects small firms particularly severely, as can be seen from the fact that the average size of new businesses increases with rising bureaucratic costs. Tomasi et al. (2023) show that the cost and duration of administrative procedures reduce the number of firms that enter and exit the market in 22 European economies. **The duration of such processes has a particularly strong impact on corporate dynamics:** market entries would increase by 6.4 % and market exits by 5.4 % if the duration of administrative procedures were reduced from the level of Italy (90th percentile) to that of Norway (10th percentile).

Compared with other countries, Germany performs poorly in terms of its regulatory framework for business start-ups. ➤ BOX 10 According to a study conducted by the World Bank (2020), Germany ranks 125th out of 190 countries in this category. Fewer market entries reduce competition, which usually means higher prices and less product diversity. Established firms benefit from greater market power and earn higher profits.

➤ BOX 10

Case study: administrative processes for setting up a company in Germany and Estonia

A World Bank ranking that quantifies and compares the **work involved in setting up a business** rates Estonia as one of the most start-up-friendly countries in the EU, while Germany ranks at the bottom (World Bank, 2020). The following compares the main steps involved in setting up a company in both countries. It outlines the formation of a private limited company (OÜ) in Estonia and the establishment of a limited-liability company (GmbH) in Germany. As in Germany, shareholders' liability in Estonia is limited to the firm's equity capital (Eesti.ee, 2024a).

Establishment of a private limited company (OÜ) in Estonia

The **formation of a firm in Estonia can be processed electronically** on the e-Business Register platform, **which gives citizens access to digital administrative services** (Eesti.ee, 2024b, 2024c, 2024d). An identity card, electronic ID or – for foreign founders – e-residency, which allows access to Estonian digital administrative services, is required to use the platform. To set up a company, all individuals associated with the business are registered, and information about the firm – such as its name and the employees to be hired – is provided. A standard template is used to draft articles of association on the platform. A VAT number can be applied for directly during this process. However, this is only mandatory for firms with annual revenue of €40,000 or more. A fee of €265 for registration and a minimum capital contribution of one cent per shareholder must be paid to set up the company. Proof of this capital contribution is only required for contributions of more than €50,000. The registration application must be signed electronically by all individuals associated with the firm. This application will be proces-

sed by the authorities within five working days, or within one working day under the accelerated procedure.

Establishment of a limited-liability company (GmbH) in Germany

There is no single point of contact for setting up a firm in Germany. **The jurisdiction of the authorities depends on the company's place of business** (competent local court, trade office or tax office). The Munich Chamber of Industry and Commerce (IHK München, 2024) estimates that the cost of setting up a limited-liability company (GmbH) is at least €1,000.

First of all, key data such as the company's name, its object and its shareholders must be determined and articles of association for the GmbH must be drafted. **The articles of association must be certified by a notary.** A business account can then be opened and the equity capital paid into it. Once proof of payment of the equity capital has been submitted, the notary will arrange for the entry in the commercial register (IHK München, 2024). **The business is registered** at the relevant trade office on presentation of the relevant extract from the commercial register and an identity card or passport. Tradespeople must complete the tax registration questionnaire, which is sent by the relevant tax office, and they then receive a **tax number**. Firms in many sectors must register **with an accident insurance provider**, which is usually the relevant employers' liability insurance association. In order to hire employees, it is also necessary to apply for a company number from the Federal Employment Agency (amtlich-einfach, 2024). Further administrative processes – such as registering for social insurance funds – must also be initiated when hiring employees.

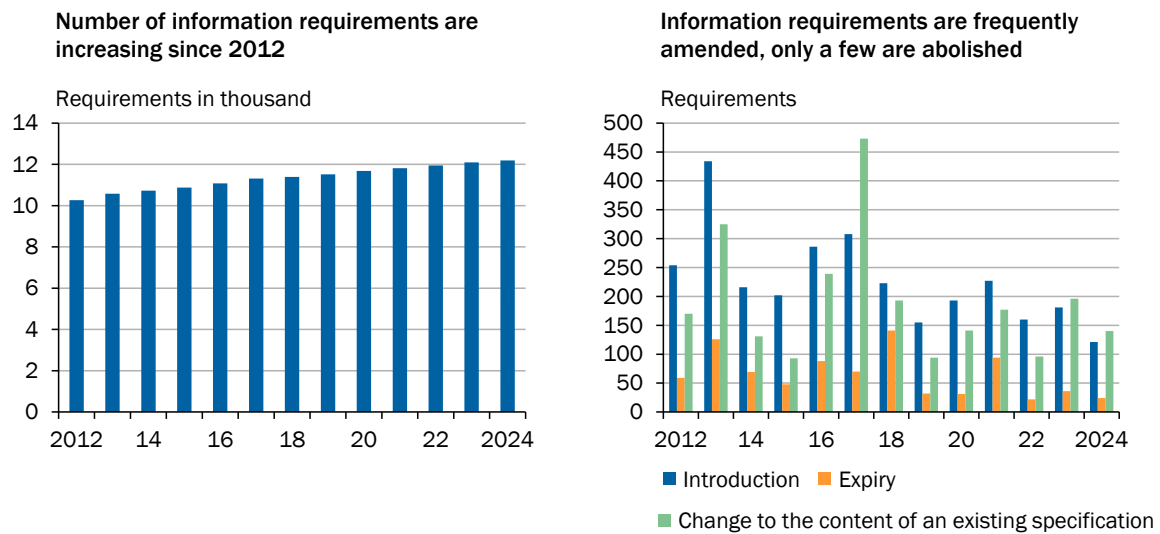
Whereas a digital one-stop shop is used to set up companies in Estonia, [BOX 9](#) founders in Germany have to contact several authorities and initiate various processes. Although, since 2022, notary appointments for the formation of a GmbH can be made online (Bundesnotarkammer, 2022), the overall formation process remains fragmented. Obtaining information is time-consuming and often takes place at the level of the regional chambers. **The time it takes to set up a company varies from region to region.** According to an analysis of 5,435 start-ups in 2021, the average period required for entry in the commercial register in Saxony-Anhalt was 21.5 days, while in Saarland it was 55 days. The **Germany-wide average was 35 days** (startupdetector, 2022).

194. The extent to which **government requirements** distort business decisions partly depends on their complexity. If **multiple authorities** are responsible for developing and implementing requirements for the same area, the **cost to companies is higher**, which reduces their productivity and growth (Kalmenovitz et al., 2025). In addition, fragmented government requirements act as **a deterrent to market entrants**.

One **example of the fragmentation of government requirements** in Germany is the **formation of companies**, where several authorities (local court, tax office, trade licence office) are involved – sometimes at different levels of government. [BOX 10](#) At a European level, there are numerous duplicated and, in some cases, redundant requirements (Taxonomy Regulation, Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive) in the area of corporate sustainability reporting which, according to the European Commission, are to be more closely aligned in the future (Wirtschaftsprüferkammer, 2024). [BOX 14](#)

↘ CHART 38

Number of federal information requirements for firms since 2012



Sources: Federal Statistical Office, own calculations
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195. Last but not least, **government requirements change frequently**. In 2024 alone, 121 new federal information requirements came into force and 24 expired, while the content of 140 existing information requirements was amended. Significantly more new requirements have been added in the previous two years. ↘ CHART 38 Frequent substantive changes **limit the predictability of government requirements and require regular adjustments on the part of companies**. The resulting uncertainty has a negative impact on capital spending and economic activity (Ishii and Yan, 2004; Nodari, 2014). For example, firms may postpone planned investment projects ('wait-and-see' approach) or abandon them altogether.

2. Macroeconomic effects

196. **Indirect bureaucratic costs** that distort business decisions on market entry and capital investment ↘ ITEMS 191 FF. can **reduce the potential output and long-term growth of an economy**. Bureaucracy has a particularly negative impact on **TFP** ↘ ITEMS 199 F. and **capital accumulation**. ↘ ITEM 201 In addition, more labour and resources than necessary are tied up in bureaucratic processes and are therefore not available for the production of goods or the provision of services.
197. Only a few studies on the macroeconomic effects of bureaucracy focus on the indirect impact of bureaucratic costs (Tomasi et al., 2023; Pellegrino and Zheng, 2024). Instead, most studies analyse the macroeconomic effects of regulation, which may cover aspects of bureaucracy but is much broader in scope. Moreover, **bureaucratic costs are usually analysed not in their entirety** but only for selected categories of costs. One example is the study by Pellegrino and Zheng (2024), which looks at bureaucratic costs that increase the cost of capital but, for example, neglects the cost of setting up a business. This could be one reason for

the relatively moderate macroeconomic effects identified in many quantitative studies.

198. Empirical evidence suggests that **bureaucratic costs inhibit long-term economic growth**. Djankov et al. (2006), who analyse this correlation in 135 countries, find that the average annual growth rate in countries with top-quality government requirements (4th quartile) is 2.3 percentage points higher than in countries with the lowest-quality (1st quartile). This is correlation rather than causality. The quality of government requirements is measured using the World Bank's **Ease of Doing Business Index**, which covers areas such as starting a business (e.g. number of procedural steps, duration, costs), property purchases and the legal enforcement of contracts. [↪ ITEM 188](#)
199. An important **transmission mechanism** for the growth effects of **bureaucratic costs is their contribution to the growth of TFP**, which is a key determinant of potential growth. Bureaucracy can affect the level of, and changes in, TFP by slowing down the reallocation of capital and labour from low-productivity firms to high-productivity ones and by contributing to the **misallocation of capital and labour**; the latter causes significant aggregate productivity losses (Hsieh and Klenow, 2009). Such misallocation arises, above all, from the fact that bureaucratic costs discourage **firms from entering and exiting the market** and thus impair the process of creative destruction [↪ GLOSSARY](#) [↪ ITEM 193](#). In addition, bureaucracy can hinder the **spread of new (e.g. digital) technology** by, for example, imposing restrictions on data storage and processing. [↪ BOX 11](#)

[↪ BOX 11](#)

Analysis: case study on GDPR

The EU's **General Data Protection Regulation (GDPR)** regulates the protection and processing of individuals' personal data (European Parliament and Council of the European Union, 2016). This regulation came into force on 25 May 2018 and aimed to harmonise the previously fragmented European data protection laws and thereby reduce the administrative burden and costs imposed on firms, especially in cross-border data traffic. The European Commission (2012) anticipated potential cost savings of up to €2.3 billion per year for companies.

This regulation provides individuals with **comprehensive rights**, such as **the right to obtain information, to delete data and to object** to the processing of personal data. The GDPR also sets out **strict requirements for data processing**, such as written documentation of the procedures used.

As a European regulation – unlike a directive – **the GDPR directly applies in all member states** without the need for national laws. [↪ ITEM 218](#) In individual areas, however, the member states have **additional national discretion**, for example with regard to the processing of deceased individuals' data (European Parliament and Council of the European Union, 2016) or the number of supervisory authorities. In Germany, the Federal Data Protection Commissioner is responsible for institutions at the national level, while the supervisory authority of the respective federal state is responsible for public institutions at the regional level and for non-public organisations.

The **GDPR is criticised for various reasons**. '**Gold plating**', [↪ BACKGROUND INFO 8](#) i.e. the adoption of additional national rules, undermines the intended harmonisation of European data protection laws and is likely to increase companies' administrative costs (Draghi, 2024). Moreover,

the **simultaneous jurisdiction of several supervisory authorities** can **impair the efficiency of supervision**, and **different interpretations can create uncertainty** (Draghi, 2024). In Germany, for example, similar questions received from companies about the GDPR are answered by various supervisory authorities if the firms concerned are based in different federal states. Therefore, the German government's growth initiative (Bundesregierung, 2024b) launched during the 20th legislative period had planned to pool responsibility with the supervisory authority of a particular federal state, thereby creating a single point of contact offering specialised expertise in highly complex issues. However, this plan was never implemented. Furthermore, **small and medium-sized enterprises** are **generally not exempt from the GDPR** and often perceive the cost of complying with EU law as being higher than it is for large companies (Draghi, 2024).

200. Bureaucratic costs place different burdens on firms of different sizes.

This can skew the distribution of business sizes and competition and contribute to misallocation. For example, **fixed costs place a greater burden on small and medium-sized enterprises than on large companies**. Icks and Weicht estimate in their qualitative study (2022) that the bureaucratic costs in Germany for a large medium-sized enterprise with around 3,500 employees are around 1 % of revenue compared with around 3 % for a small medium-sized firm with 125 employees. There are often discrete jumps in bureaucratic costs because some requirements only apply above a certain business size. This can distort firms' incentives and opportunities to tap new markets or improve their productivity because the larger the company, the higher the bureaucratic costs.

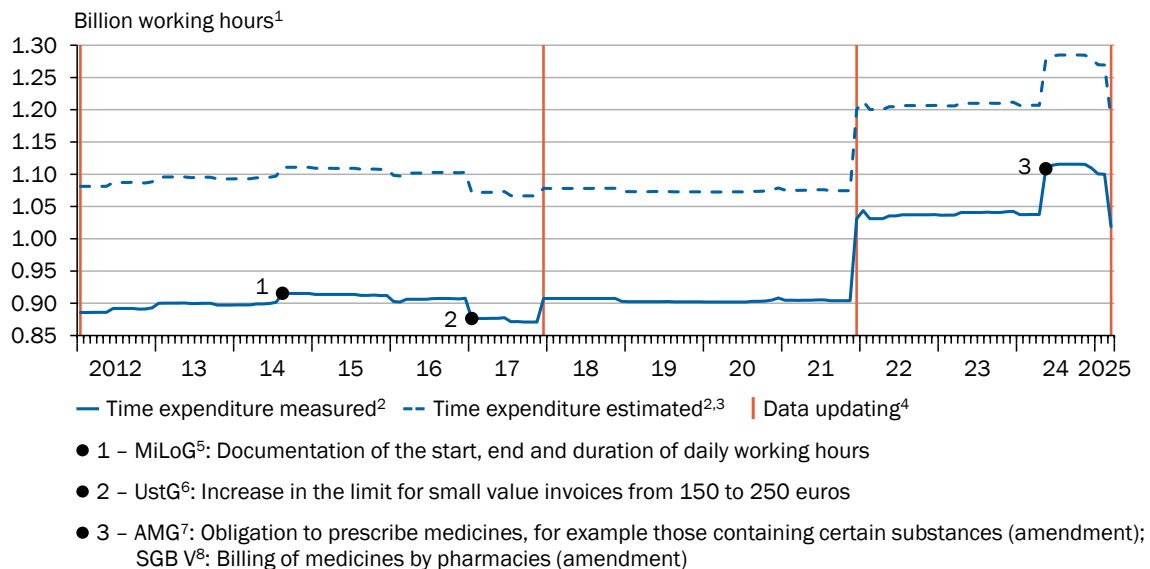
201. Another transmission mechanism for bureaucratic costs is the accumulation of capital. Complex approval procedures, for example, can inhibit **investment activity**. [▶ ITEM 192](#) Pellegrino and Zheng (2024) estimate a structural model using data from surveys of almost 15,000 firms in seven European countries on the most important barriers to business growth. They estimate that existing **bureaucratic barriers, which render the use of capital more expensive, reduce output in Germany by an average of 0.17 % of GDP per year**. More than **two-thirds** (0.12 percentage points) **of this decline can** be attributed **to inefficiently low corporate investment** and just under **one-third** (0.05 percentage points) **to a misallocation of capital and labour**. Compared with other European countries, however, the decline in output due to bureaucratic costs, which make the use of capital more expensive, appears small: in France, Italy and Spain it is noticeably higher at 3.9 %, 0.8 % and 0.3 % of GDP respectively, of which between two-thirds and three-quarters can be attributed to lower capital investment. The significant effect in France mainly reflects the fact that the proportion of firms seeing legal and administrative restrictions as major obstacles to growth is disproportionately high.

202. Finally, bureaucracy also reduces potential output by tying up firms' labour force in administrative processes (e.g. meeting information requirements, applying for permits) and therefore making it unavailable for other activities. As an example, administrative data can be used to estimate how many working hours companies spend meeting information requirements under federal law. In Germany, around 886 million working hours were spent on this purpose in 2012, which corresponds to 1.5 % of all hours worked that year (Federal Statistical

Office, 2025a). [↗ CHART 39](#) By 31 March 2025 this figure had **risen by 0.2 percentage points to 1.7 % of all hours worked in 2024 – or 1,019 million working hours**. As only some of the total bureaucratic costs are considered here, this estimate represents the lower limit of the actual hours worked. Assuming that the information requirements imposed under federal law account for around one-third of total information requirements, [↗ CHART 32 RIGHT](#) the total cost – proportionally extrapolated – represents 4.9 % of the total number of hours worked in 2024. Given the increasing labour shortages in Germany, the manpower used to meet bureaucratic requirements is considerable.

[↗ CHART 39](#)

Time spent by companies to fulfill information requirements under federal law per year



1 – Regular bureaucratic costs that are foreseeably incurred on a regular basis over a period of several years. 2 – Bureaucratic costs are not broken down into time and material costs for all federal requirements. Only the requirements are taken into account here for which an estimate of the time required was carried out. The values shown therefore reflect a lower limit. At the beginning of the measurement, on 1 January 2012, a time estimate was available for 82 % of the bureaucratic costs under federal law. When the data was updated on 31 December 2017, an estimate of the time required was available for 84 % and for the data updates on 31 December 2021 and 31 March 2025 for 86% of the bureaucratic costs under federal law. 3 – The extrapolation is proportional to the share of administrative costs for which a time expenditure estimate was carried out. 4 – Adjustment of the data for cyclical effects, e. g. due to the increase or decrease in the number of companies affected by a requirement or adjustment of individual estimates, such as the correction of the ex-ante estimate of working hours for the prescription obligation for medical products that e. g. contain certain substances (AMG, footnote 7). 5 – Law on the regulation of a general minimum wage. 6 – Value Added Tax Act. 7 – Act on the Trade in Medicinal Products. 8 – Fifth Book of the German Social Code.

Sources: Federal Statistical Office, own calculations

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3. Productivity effects of administrative performance

203. Requirements are enforced by the relevant administrative authorities. For example, they check compliance with legislation, issue approvals, monitor obligations and impose penalties. **Inefficient enforcement of requirements can result in additional costs for their target groups**, which is why the efficiency of administration is crucial for perceived bureaucratic costs and firms' productivity over time.
204. Using Italy as an example, an OECD study examines **the relationship between the efficiency of public administration and the productivity of firms** based on differences in the efficiency of public administration in different provinces. Improving the efficiency of a provincial administrative authority from the 25th percentile (Catanzaro, southern Italy) to the 75th percentile (Monza, northern Italy) raises firms' annual labour productivity growth by around 2.4 percentage points (Fadic et al., 2019). Amoroso et al. (2024) show that the **quality of governance is crucial for** the impact of regulation on the **diffusion of fast-growing companies** in European regions. While strict product regulation can generally inhibit the spread of fast-growing businesses, this negative effect is not evident in regions where the quality of administration is high.

The main reason for the positive correlation between administrative efficiency and productivity is likely to be the opportunity costs arising in the form of wasted time and tied-up capital and personnel. For example, **inefficient administration can lengthen the duration of approval procedures**, which puts the companies concerned at a competitive disadvantage. This can have a negative impact on these firms' investment decisions, dampen business growth and intensify migration to regions with more efficient administration (Amoroso et al., 2024).

205. In Germany there have been **several major administrative reforms since the early 2000s** with the aim of improving the efficiency of law enforcement. For example, the **organisation and working methods of the Federal Employment Agency (BA)** were adjusted **as part of the 'Hartz reforms'**, thereby increasing job placement efficiency (Fahr and Sunde, 2009; Launov and Wälde, 2016). This was achieved by adopting a more systematic approach by, for example, launching target-group-focused initiatives for young jobseekers. Job placement efficiency was improved by setting up customer centres and service centres, which provide customer-friendly advice by separating face-to-face and telephone interviews. In addition, the responsibility of employment agencies was strengthened by replacing the previously bureaucratic supervision of the state-run job centres with target-oriented management by the newly established regional directorates. Furthermore, an efficiency-enhancing working environment was created by rewarding personal performance to a greater extent – also at the managerial level. Internal controls now help to measure the efficiency of employment services (Weise, 2011).

Extensive changes were also made to unemployment benefits and the newly established basic income support for jobseekers as part of the Hartz reforms.

Unemployment in Germany **fell significantly** over the years **following the implementation of these reforms**. Launov and Wälde (2016) use a matching model to analyse the impact of the Hartz III and Hartz IV reforms on the unemployment rate over time. To this end, they compare the actual trend with a hypothetical trend, assuming greater efficiency in job placement by the BA (Hartz III) and shorter unemployment benefit payments (Hartz IV). This revealed that **around 20 % of the decline in unemployment can be attributed to the improved efficiency of the BA**, while the shortening of unemployment benefit payments only explains around 5 % of the observed decline.

IV. DETERMINANTS OF BUREAUCRATIC COSTS

206. The **quality of laws is determined by their effectiveness, user-friendliness and enforceability** (NKR, 2019). An effective law achieves the objectives associated with it. A user-friendly law minimises the effort required for businesses and citizens to implement it. This can be achieved, for example, by formulating laws in a way that is understandable for the respective target group and by providing easy-to-use interfaces for the automated fulfilment of information requirements. Enforceable laws can be implemented by the administrative authorities in a legally compliant and cost-effective manner. Legally compliant application of a law is possible if its interpretation is clear and predictable. The digitalisation of administrative processes in Germany often still offers scope for greater efficiency in enforcement.

1. Challenges in the national legislative process

Consultation process and quality control

207. In Germany, the Bundestag and the Bundesrat are responsible for **legislation at the federal level**. [▷ BACKGROUND INFO 6](#) Draft laws are usually drawn up by the federal ministries responsible. In order to ensure that new legislation is appropriate for its target groups and enforceable, stakeholders are given the opportunity to comment on new draft legislation as part of the consultation process.



[▷ BACKGROUND INFO 6](#)

Background: the federal legislative process

Legislation is governed by the Joint Rules of Procedure of the Federal Ministries (GGO). Most **laws are drafted by the ministries responsible and are submitted to the Bundestag by the German government** (Bundesrat, 2025). The other federal ministries, the National Regulatory Control Council (NKR), the federal states, organisations representing municipalities, special-interest groups and trade associations are involved in examining the draft laws as part of the consultation process. The

consultation period lasts four weeks. This is followed by the Bundesrat's opinion and the first reading in the Bundestag. Draft laws are then presented and referred to the **relevant Bundestag committees for consultation**, which prepare recommendations for amendments or resolutions. During the second reading the Bundestag discusses the draft laws and amend them if necessary. This is followed by the third reading, during which the final vote is taken. If a draft law is **adopted by the Bundestag**, it is **submitted to the Bundesrat**. The Bundesrat's role depends on whether it is an approval law or an objection law. Once the law has been signed by the **German president** and published in the Federal Law Gazette, it enters into force on the specified date.

208. Draft laws from the German government are subject to a legal review by the Federal Ministry of Justice (Section 46 GGO). This is intended to ensure, for example, compatibility with higher law and full integration into the existing legal structure. A draft law may only be submitted to the cabinet for approval after it has been successfully reviewed (Bundesregierung, 2023a). **Legal formality is therefore a high priority in the drafting of the legislative text.**

209. The Joint Rules of Procedure of the Federal Ministries (GGO) **do not provide any binding control mechanisms to ensure enforceability and user-friendliness**. In order to improve these qualities, however, new draft laws are subject to a **consultation process**. [↪ BACKGROUND INFO 6](#) The federal states, the National Regulatory Control Council (NKR), [↪ BOX 12](#) organisations representing municipalities, relevant trade associations and other special-interest groups have the opportunity to submit comments on the draft laws. The selection of the organisations and special-interest groups involved is at the discretion of the lead ministry (Section 47 GGO). There is often no opportunity for individuals or companies to make a direct contribution (NKR, 2019).

The NKR has recently criticised that it is **often not given the four-week period stipulated** in the GGO **to prepare its opinions**. This requirement was not met in 62 % of the processes conducted in 2024. The review period was less than five days in 13 % of these processes (NKR, 2024a).

210. Germany lacks **standard guidelines on drafting laws**. Legislators who formulate legal texts in the federal ministries have to use **numerous working aids** when drafting laws. However, these are not always harmonised and are provided by different departments within the German government (NKR, 2025a). The German government's working-aid library, for example, currently consists of more than 40 working aids, checklists and circulars (BMI, 2025a). According to the NKR, the large number of working aids could encourage legislators to merely pay lip-service to guidelines rather than applying them properly. A standardised, centrally maintained guideline could provide a remedy here (NKR, 2025a). [↪ BOX 12](#)

[↘ BOX 12](#)

Focus: the National Regulatory Control Council in comparison with the Norwegian Better Regulation Council

The National Regulatory Control Council (NKR) is a legally established, independent body that advises the German government on bureaucracy, better legislation and digital administration. The NKR **examines** the German government's **draft laws** to ensure that **cost estimates, consideration of alternative solutions and examination of the digital feasibility** of legislation **are carried out in a methodologically correct and comprehensible** manner (Section 4 of the Act on the Establishment of a National Regulatory Control Council [NKR-G]). The objectives pursued by such regulation are not the subject of the NKR's review (Section 1 NKR-G). Although its opinions have no direct binding impact on the legislative process, they are attached to the draft laws. They create additional transparency and inform the public. In addition, the NKR makes recommendations on reducing bureaucracy and digitalising administrative processes in separate reports. As specified by its mandate, the NKR **does not carry out any quality control of the preparation of legislation** in terms of its **effectiveness, user-friendliness or enforceability**, except for reviewing the implementation of digital checks.

The federal states of Baden-Württemberg, Bavaria, Saxony and Thuringia have established their **own regulatory control councils at regional level** (NKR, 2024b). In addition, North Rhine-Westphalia and Lower Saxony have each set up clearing centres for SMEs. The clearing centre in North Rhine-Westphalia examines regulatory projects for compatibility with SMEs on behalf of the state-level ministries responsible and assesses their impact on competition, jobs and administrative and other costs (Clearingstelle Mittelstand, 2025).

The **Norwegian Better Regulation Council** (Regelrådet), a body similar to the NKR, **carries out quality controls on the drafting of laws** (NKR, 2019). The Better Regulation Council examines whether the guidelines for drafting legislation have been followed and assesses whether the objective of the legislation has been achieved at the lowest-possible cost to businesses (Regelrådet, 2025a). The guidelines stipulate, among other things, that six key questions need to be answered as part of the drafting process (DFØ, 2018). These concern an explanation of the problem, a description of potential measures to address the problem, the impact of the measures on those affected, a justification of the measures ultimately used in law, and the requirements for successful implementation of the law. In addition, the guidelines set out requirements for the involvement of other ministries. The Better Regulation Council provides a written opinion on the draft laws and uses a traffic-light system to assess compliance with the guidelines. In 2024 it examined 43 draft laws, eight of which were rated green, 24 amber and 11 red (Regelrådet, 2025b). It examined 190 draft laws during the period 2016 to 2021. In 20 cases the Better Regulation Council assessed that its opinions had an influence on the final form of the regulation (Regelrådet, 2025c). One weakness of the Norwegian approach could be that written answers to the key questions for the ministries involve additional bureaucracy.

211. The **administrative cost of new regulatory proposals is estimated** on the basis of the draft law on which the **cabinet decision** is based, and it is then submitted to the NKR for comment. During the parliamentary process, however, **the draft law** may be **amended**, which may result in changes in the administrative cost. A **new estimate** of bureaucratic costs **is not standardised** as part of the parliamentary process. This causes a lack of transparency about the bureaucratic costs incurred. One exception to this is Bureaucracy Relief Act IV (BEG IV) [↘ BACKGROUND INFO 9](#), which came into force in 2024. After the proposal for the digital reading of passports for flight handling contained in the draft law was rejected during the parliamentary process, for example, a new estimate of bureaucratic costs was

carried out. The annual relief originally amounting to €310.7 million (Bundesregierung, 2024c) was reduced by €31.5 million (Bundesregierung, 2024d).

- 212. Laws and regulations** for which regular compliance costs exceed €5 million per year **are evaluated after they come into force** (Section 44 GGO; Bundesregierung, 2019a; BMJ, 2024a). As part of this evaluation the ministry responsible reviews whether the cost of the law is proportionate to its impact and whether this impact could be achieved at a lower cost (Federal Statistical Office, 2025b). The results are to be published on a central platform in accordance with a resolution passed by the State Secretaries in 2019 (Bundesregierung, 2019a). However, this platform has not yet been created (NKR, 2024a). The NKR (2024a) also criticises the fact that some of the evaluations are not completed on time. In its report in 2024 the Commission of Experts for Research and Innovation (EFI, 2024) criticised **methodological shortcomings in evaluation studies** on research and innovation policy, which often fail to meet the requirements of a causal analysis. Although these evaluations make it possible to identify success factors, implementation hurdles and unintended consequences, they **do not appear to be highly valued by the government ministries** overall.

The guidelines for drafting laws in **Norway** [↘ BOX 12](#) stipulate that the **initial situation must be documented** if possible **before the new law is passed** so that the effects of the law can be evaluated later (DFØ, 2018). In order to evaluate the impact of administrative simplifications, for example, the duration of approvals prior to a reform should be measured and documented. However, data collection can cause further bureaucracy if, for example, business surveys are carried out in advance.

Technological progress and evolution of the legal system

- 213. Technological progress necessitates** a large amount of **new regulation** (Hinterleitner et al., 2024). This often relates to areas that lie outside the expertise of traditionally trained lawmakers (NKR, 2019). Greater **differentiation** in the content of laws as a result of **deregulation** can also give rise to **more complex requirements**. This is the case, for example, if more nuanced regulations that allow limited exceptions are created instead of an outright ban (Knill et al., 2024a). The approval of e-scooters on public roads, for example, meant not only that the Regulation on Small Electric Vehicles had to be adopted but also that the Driving Licence Regulation and the Vehicle Registration Regulation had to be amended at the same time (Bundesregierung, 2019b).

The **complexity of laws increases if they are designed to take account** of a wide range of **individual cases**. One example of this is the commuter allowance in the Income Tax Act. It includes specific regulations concerning, for example, journeys by car, cases in which the employer itself is the mode of transport, employees with several residences, and calculations based on distance.

- 214.** New laws must fit into the existing legal system. Their **continuous evolution at the national and European level must be taken into account in legislation** (NKR, 2019). The federal organisation of legislation in Germany can

produce inconsistent regulation that increases bureaucratic costs and results in lower productivity. The regional supervisory authority responsible for GDPR issues, for example, is determined by the location of a company's headquarters. Subsidiaries from another federal state could therefore receive different answers to the same questions. [↗ BOX 11](#)

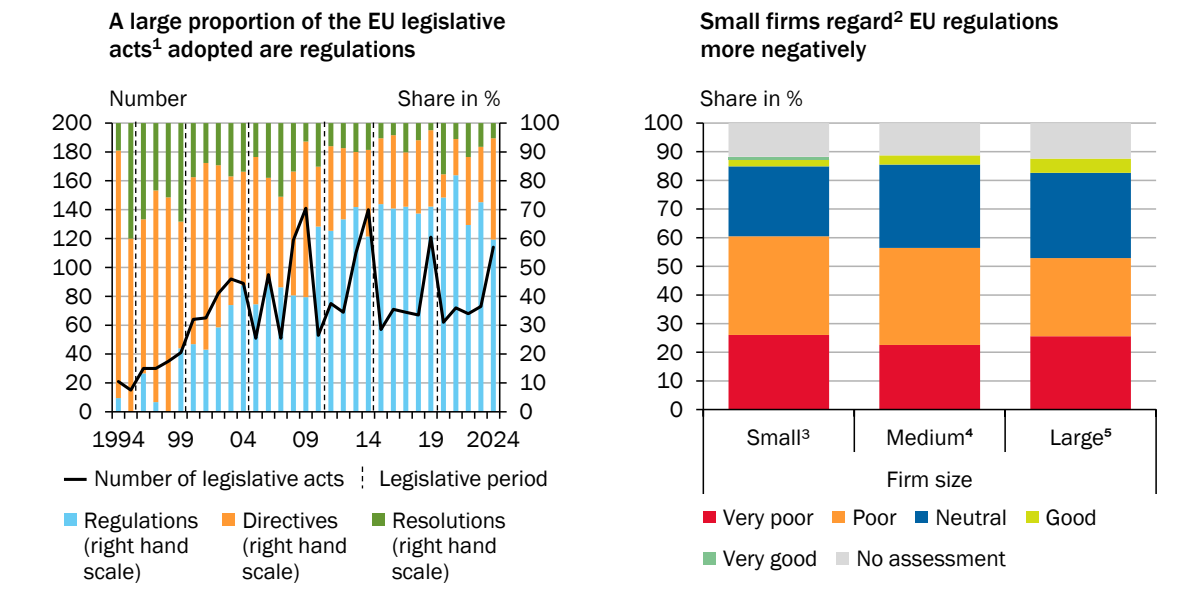
215. When a **new law is passed**, several **existing laws** are often **amended in order to integrate the law into the current legal framework**. These are so-called 'article laws' (BMVg, 2025). With the introduction of the Supply Chain Due Diligence Act (LkSG), for example, amendments were made to the Competition Act and the Works Constitution Act (Bundesregierung, 2021a). Nevertheless, **there may be conflicting goals of different laws**. For example, the GDPR [↗ BOX 11](#) requires the deletion of data that is no longer needed for the purpose for which it was collected, while commercial and tax law stipulates retention obligations (Art. 17 para. 1 GDPR, Section 257 HGB, Section 14b UStG). Although Art. 6 para. 1 of the GDPR allows the storage of data to fulfil such legal obligations, the conflicting principles cause uncertainty for companies in practice (Durmus et al., 2019). Changes in legislation require adaptation processes that incur costs for businesses. Employers' associations criticised the increase in the minimum wage in 2022, for example, as it required adjustments to collective agreements ahead of schedule and reduced their planning certainty (Fulda et al., 2023).

2. Challenges posed by EU legislation

216. In addition to legislation adopted by national, regional and local authorities within Germany, the **European Union (EU)** can issue **directives and regulations** that have an impact at the national level. [↗ BACKGROUND INFO 7](#) [↗ BOX 13](#) The subsidiarity principle applies here, which is intended to ensure that regulations are only adopted at the EU level **if objectives are not (or cannot be) sufficiently achieved at a national level or if it is more efficient to achieve them at EU level**. Since the late 2000s, regulations that are directly applicable at national level and do not require national implementation have been adopted most frequently at the EU level as part of the ordinary legislative procedure. [↗ CHART 40 LEFT](#) A survey conducted by the ifo Institute in 2024 found that almost 35 % of business-related requirements are based on European Union regulations (Demmelhuber et al., 2024). [↗ CHART 32](#) Identifying the proportion of national legislation that is based on EU laws is methodologically challenging. Depending on the type of measurement used, estimates range from 36 % to 67% (König and Mäder, 2008, 2011; Töller, 2008, 2014; Hölscheidt and Hoppe, 2010).

[↘ CHART 40](#)

EU legislation at a glance



1 – Legislative acts adopted by the European Parliament and the Council of the European Union. 2 – The question in the survey was: „How would you rate your experience with the requirement/regulations of the different levels?“ 3 – Firms with 65 employees or less. 4 – Firms with 66 up to 265 employees. 5 – Firms with 266 or more employees.

Sources: Demmelhuber et al. (2024), EUR-Lex

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[↘ BACKGROUND INFO 7](#)

Background: the legislative process at the EU level

The legislative process at the EU level begins with a **proposal from the European Commission**, which has the sole right of legislative initiative and can adopt regulations, directives, decisions and delegated and implementing acts. [↘ CHART 40 LEFT](#) The Commission submits its proposal to both the **Council of the European Union** (Council of Ministers) and the **European Parliament**. These two institutions **decide on the proposal on an equal footing in the so-called ordinary legislative procedure**. During this procedure **the national parliaments** are also informed about the drafts and **can submit comments**. If the draft is rejected by more than a third of the national parliaments, the Commission must review the proposal and, if necessary, revise or withdraw it (yellow card procedure). The Council and Parliament scrutinise the proposal during up to three readings. If no agreement is reached at the second reading, a conciliation committee meets to find a compromise. This must be reconfirmed by Parliament and the Council. Once it has been successfully adopted by both institutions, the **law is published in the Official Journal of the European Union** and enters into force on a specified date.

[↗ BOX 13](#)

Focus: information requirements under the Supply Chain Due Diligence Act

The German Supply Chain Due Diligence Act (LkSG) was passed in 2021 and came into force in January 2023 for companies with more than 3,000 employees. In January 2024 the target group for this legislation was widened to include firms with more than 1,000 employees. The law **aims to strengthen companies' responsibility for the impact of their global business activities** (Bundesregierung, 2024e). It obliges firms to **comply with human rights and environmental protection at direct suppliers**, to identify any associated risks and to put an end to abuses. Compliance with due-diligence obligations will be monitored by the Federal Office for Economic Affairs and Export Control (BAFA) from 2026 onwards (BAFA, 2024). In addition to the reputational damage caused by non-compliance with due-diligence obligations, firms can be fined and excluded from public procurement contracts.

In 2024 the Council of the European Union and the European Parliament adopted the **European Supply Chain Directive** (Corporate Sustainability Due Diligence Directive [CSDDD]). The introduction of the CSDDD is scheduled for 2028, one year later than originally planned, and will take place in three stages (European Parliament, 2025; Council of the European Union, 2025). In the final stage, in 2029, the directive will cover EU-based companies with more than 1,000 employees and global net revenue of €450 million or more as well as firms from non-EU countries that generate net revenue of at least €450 million within the EU. The **CSDDD therefore affects fewer companies than Germany's LkSG**, which is why the NKR cites the **LkSG as an example of overcompliance with European regulations** ('gold plating') (NKR, 2024a). **In contrast to the LkSG, however, the CSDDD covers the entire supply chain rather than just the immediate suppliers**, imposes **more extensive information requirements** (e.g. transition plan for companies to achieve the 1.5-degree target) and stipulates higher fines and civil liability.

According to the Federal Statistical Office's OnDEA database (2025a), the LkSG imposes annual bureaucratic costs of €15.1 million on the economy. Around 4,800 businesses fall within the scope of the LkSG in 2024, resulting in estimated bureaucratic costs of roughly €3,150 per firm per year (Haupt and May, 2024). However, the **bureaucratic costs recorded** are limited to those **directly incurred by companies subject to reporting requirements** (Bundesregierung, 2024a). They neglect the costs incurred by businesses that are not themselves subject to reporting requirements but form part of the supply chains of companies that are subject to such requirements. Firms subject to reporting requirements request the relevant information from their business partners in order to fulfil their due-diligence obligations. This **trickle-down effect** is likely to result in a significant proportion of **bureaucratic costs being incurred by companies** that are not covered. Indications of this effect can be seen, for example, in a survey conducted by the Bavarian Chamber of Industry and Commerce, **in which around a quarter of the small businesses surveyed (1 – 19 employees) stated that their activities were significantly or partially impaired by the information requirements of the LkSG** (Weinberger et al., 2024). The IW Future Panel estimates that around **48 % of firms with up to 49 employees are indirectly affected by the LkSG** (Kolev-Schaefer and Neligan, 2024). The bureaucratic costs of the LkSG reported by the Federal Statistical Office may therefore significantly underestimate the actual costs involved.

Two draft laws to abolish the LkSG are currently making their way through the parliamentary process (Deutscher Bundestag, 2024). On 26 February 2025 the **European Commission published proposals to simplify the CSDDD** as part of its Omnibus package (European Commission, 2025a). [↗ BOX 14](#) Among other things, the **CSDDD is to be limited to direct supply chains**, and **annual audits of business partners are to be replaced by audits every five years**. The impact on firms in the supply chain that are not required to report will be reduced by limiting the information requested. In addition, plans to introduce civil liability are being cancelled.

It is unclear whether and, if so, to what extent the **reporting requirements** of the LkSG **effec-**

tively help to improve human rights, environmental protection and social standards throughout supply chains. Initial studies conducted for the clothing industry suggest that companies could withdraw from developing countries, as compliance with due-diligence obligations there can be onerous. Consequently, developing countries would lose competitiveness, possibly without improving domestic human rights or environmental and social standards, and there may be welfare losses (Kolev-Schaefer and Neligan, 2024; Wolfmayr et al., 2024). Given the short period of time since the LkSG came into force, however, it is not yet possible to make an informed assessment of its impact. The BAFA is to evaluate the effectiveness of the LkSG by 30 June 2026 (BAFA, 2023).

217. Legislation at several levels and the lack of centralised enforcement authorities at the EU level mean that different national interpretations and types of enforcement can increase the costs for target groups that operate nationally. This can distort competition within the EU. For example, escape clauses that allow national deviations from the minimum requirements set by the GDPR give rise to divergent national regulations. [↪ BOX 11](#) Despite being aware of the GDPR, companies that are active in several EU member states must also comply with national data protection laws. This greater complexity is associated with higher bureaucratic costs and can have a negative economic impact on activities such as internationalisation strategies and capital spending. [↪ ITEM 192](#)

218. While EU regulations have a general effect and decisions about specific target groups have a direct impact, **EU directives** require explicit transposition into national law. While, on the one hand, directives create **national leeway**, on the other hand there is the **challenge of transposing** the directive into an **existing legal framework**. Possible redundancies, inconsistencies with previous requirements, and ‘gold plating’ [↪ BACKGROUND INFO 8](#) must be avoided. The scope and complexity of EU legislation can place a burden on small businesses and start-ups in particular owing to the trickle-down effect, although they are not actually part of the intended target group (European Commission, 2023a; Draghi, 2024). [↪ ITEM 192](#) [↪ ITEM 200](#) [↪ BOX 13](#) Small businesses may lack the human resources and expertise to meet documentation and information requirements. More than half of the firms surveyed by the ifo Institute state that they have had bad or even very bad experiences with legal requirements at EU level. [↪ CHART 40 RIGHT](#) The corresponding figure for small businesses is more than 60 %. However, the EU level does not perform noticeably worse than the federal level, for which the figures are similar. A comprehensive reduction in bureaucracy has been announced as part of the European Commission’s current work programme. [↪ BOX 14](#)



[↪ BACKGROUND INFO 8](#)

Definition: gold plating

‘**Gold plating**’ occurs in connection with the transposition of EU legislation into national law when a **member state imposes additional requirements that go beyond the EU requirements when transposing them into national law** (Bundesregierung, 2024f; Draghi, 2024). This fragments standardised EU legislation and incurs additional costs. [↪ BOXES 11 AND 13](#) There are several reasons for gold plating. National

transposition of European legislation may go beyond the minimum EU standards because, for example, an earlier national regulation was stricter (Draghi, 2024). In some cases, the EU only imposes limits on regulation and leaves the member states room for manoeuvre.

➤ BOX 14

Focus: latest developments aimed at reducing bureaucracy at EU level

The European Commission's current work programme is focusing on the simplification and more effective implementation of European legislation (European Commission, 2025b). **Information requirements for all businesses are to be reduced by at least 25 %** by the end of the legislative period in **2029 and by at least 35 % for small and medium-sized enterprises (SMEs)**. Overall, bureaucratic costs totalling around €37.5 billion are to be saved during this period (European Commission, 2025c). An annual legislation evaluation plan and the continued implementation of fitness checks, which assess the efficiency and effectiveness of EU laws, are intended to ensure that the reduction in bureaucracy is sustained. ➤ ITEM 238

The measures needed to reduce bureaucracy were specified by the European Commission in its Omnibus proposal published on 26 February 2025 (European Commission, 2025d). This includes simplifications in the areas of sustainability reporting (CSRD and EU taxonomy), due-diligence obligations to support sustainable business practices (CSDDD), ➤ BOX 13 the carbon border adjustment mechanism (CBAM) and the use of European investment programmes. These **measures aim to restrict information requirements to the largest companies** and to relieve the burden on small and medium-sized enterprises as much as possible. To this end, threshold values for the scope of application will be raised. For example, only companies with more than 1,000 employees will be required to report under the CSRD, which would exclude around 80 % of the firms previously affected from its scope of application. The aim is to relieve the burden on small businesses that are upstream in the value chain also by limiting the amount of information requested. **The European Commission states** that implementation of this Omnibus package could **save around €6.3 billion a year in regular bureaucratic costs**.

3. Challenges in enforcement

- 219. **Inefficient enforcement of regulation** can increase the cost of compliance for companies, for example due to lengthy procedures. Various factors within the administration are responsible for this. These include a **high degree of fragmentation in enforcement**, low amounts of cooperation between the individual administrative levels and a strong focus on the **legally flawless implementation** of procedures. In addition, staff may not be deployed effectively owing to a lack of adequate management methods and inadequate measurement of administrative performance.
- 220. **The enforcement of existing law in Germany is fragmented.** ➤ BOX 10 One of the main reasons for this is the separation of specialised areas according to the departmental principle, which reduces cooperation at an administrative level. **Collaboration between administrative levels is also limited.** In particular, there is no systematic transfer of knowledge between the level of legislation (e.g. German government) and the level of enforcement (e.g. municipalities). Dif-

ferences in administrative enforcement at the level of local authorities and a lack of standardisation are exacerbated by local self-government. Legal uncertainty about the prohibition of mixed administration and funding as well as public procurement law are hindering cooperation (NKR, 2025b). For example, the joint development and procurement of IT systems could be more cost-effective than individual procurement and, at the same time, facilitate standardisation and data exchange between administrative units.

221. German **administration is characterised by rule-bound processes, hierarchical structures and a pronounced aversion to risk**. Administrative employees are often bound by rigid regulations, while the strong focus on the implementation of legally flawless procedures leaves little room for manoeuvre (Board of Academic Advisors to the BMWK, 2025). Accordingly, the proportion of lawyers in managerial positions in German administration is very high by international standards at around 45 % (Lapiente and Suzuki, 2020). The importance of formal procedural security continues to increase when there is a threat of legal action or when employees have to fear personal consequences in the event of wrong decisions (Prendergast, 2003; Kuhlmann, 2024; Board of Academic Advisors to the BMWK, 2025). The higher risk aversion of employees in the public sector compared with other sectors is also likely to play a role here (Bonin et al., 2007; Buurman et al., 2012). The strong procedural focus results in lengthy bureaucratic processes and impairs the efficiency of enforcement (Board of Academic Advisors to the BMWK, 2025).
222. **Administrative processes often take longer than required by law**. For example, an evaluation by the BDI (2022) of around 250 procedures from 27 sectors shows that approvals under the Federal Immissions Control Act (BImSchG) take an average of six months longer than the three to seven months stipulated by law (Section 10 (6a) BImSchG). It takes an average of eleven months just for the authorities to collect all of the documents required for approval. According to the BDI, this is also due to the greater number of expert reports required. Approvals of wind turbines have seen a significant increase in approval times since 2016. Reforms – including the standardisation and simplification of procedures – have significantly reduced the duration of approval processes since 2023. [↘ BOX 15](#)

[↘ BOX 15](#)

Focus: simpler approval of onshore wind turbines

Approval processes for wind turbines have become significantly shorter, especially in the last two years. [↘ CHART 42 LEFT](#) This has noticeably reduced the overall duration of the implementation of wind power projects, which comprise three phases. [↘ CHART 41](#) While the **average approval period was 30 months back in 2018, it has fallen to 22 months by 2024**. However, there are still major variations between countries. [↘ CHART 42 RIGHT](#)

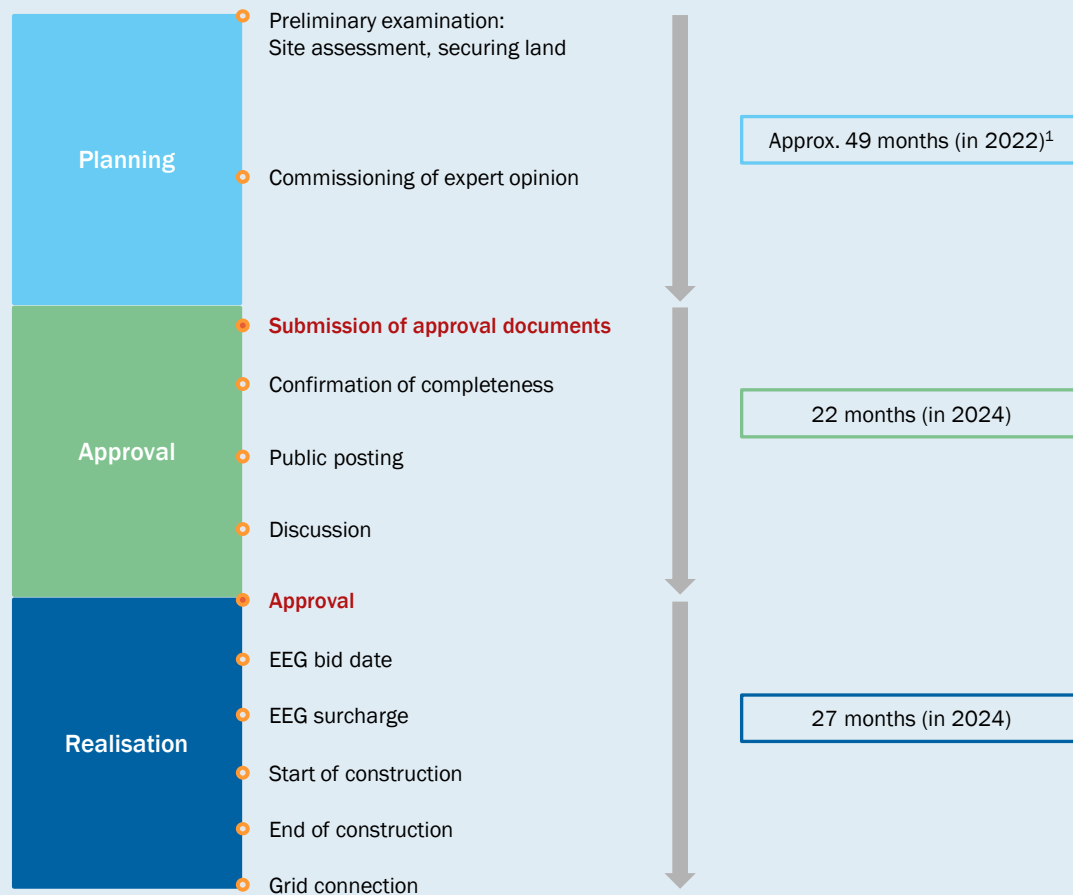
The decrease in approval times and simultaneous increase in approved capacity [↘ CHART 42 LEFT](#) is **primarily due to the reduction in bureaucracy and efficiency improvements in administrative practice**. This was implemented, among other things, as part of the amendment to the Federal Immissions Control Act of June 2024 (Goal100, 2025). This initiated the digitalisation of the application process and streamlined preliminary decision-making procedures, as

preliminary overall forecasts and environmental impact assessments are now no longer required (BWE, 2024). A **deemed approval of completeness** was also introduced. The approving authority must now confirm the completeness of an application after no more than one month and can only request additional documents once to check completeness, otherwise it is deemed to have been received in full. The **deemed approval** introduced by the amendment stipulates that the relevant authority can assume after one month that another authority involved in the approval process has given its approval if no statement has been made. In addition, a **deemed approval** was introduced for changes to the type of wind turbine during or after the approval process. Accordingly, a change of type is deemed to have been approved if the authority concerned has not made a decision within six weeks.

↪ CHART 41

Process chain for the realisation of a wind power project

Approval phase takes up more than 20 % of the total implementation time



1 – Based on a survey by FA Wind from 2022.

Sources: FA Wind (2023), Goal100, own presentation
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When the Federal Nature Conservation Act (BNatSchG) was amended in 2022, **uniform federal standards** were adopted for **species conservation assessments** during the approval process (Bundesregierung, 2023b). Accordingly, only the bird species listed in Annex 1, Section 45b of the Federal Nature Conservation Act (KNE, 2023) are to be assessed with respect to the risk of being killed. This allows simplified, faster and legally compliant implementation of the assessment. Because the EU Emergency Regulation has been implemented at the federal level, **environmental impact assessments and species conservation assessments in designated wind-energy areas** for which a strategic environmental assessment was carried out at the time

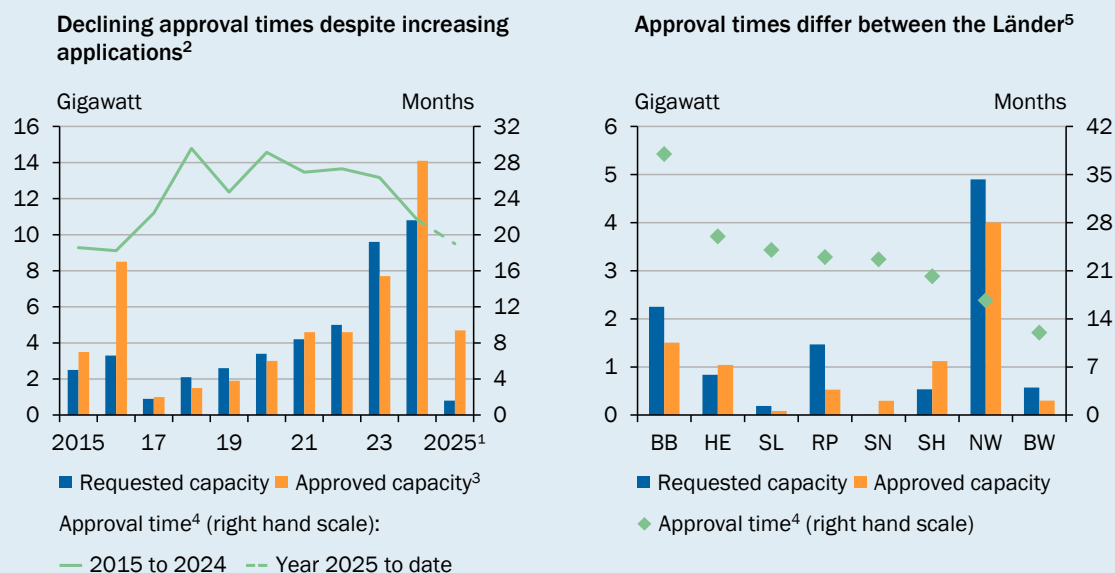
of designation **have been omitted** since 2023 (BMWK, 2023a). This regulation under Section 6 of the Wind Energy Area Requirements Act (WindBG) initially applies to applications up to 30 June 2025 but is to be maintained over the long term with the implementation of the Renewable Energy Directive (RED III) (KNE, 2024).

The measures taken over the past three years to speed up the approval process were accompanied by a **significant increase in the number of approved wind-power projects in 2024**.

↘ **CHART 42 LEFT** In addition to the acceleration of the approval process, regulatory changes were made that are also likely to have influenced these developments. For example, the Wind Energy Area Requirements Act simplified the process of designating areas in 2023 and set binding targets at the state level for the amount of land made available for wind turbines. The maximum value of the remuneration paid under the Renewable Energy Sources Act (EEG) for the wind energy tender was raised from 5.88 ct/kWh to 7.35 ct/kWh in 2023, which has led to correspondingly higher average remuneration rates over the past two years (BNetzA, 2025; IWR, 2025).

↘ **CHART 42**

Developments in the approval process for onshore wind turbines¹



1 – Data retrieval on 29 April 2025. The monitor is based on data from the Marktstammdatenregister, state level environmental offices and responsible state level ministries. 2 – The requested and authorised capacity includes data from all Länder. Due to limited data availability for the authorised capacity, this information is only based on the following federal states: Baden-Württemberg, Brandenburg, Hesse, Mecklenburg-Western Pomerania, North Rhine-Westphalia, Rhineland-Palatinate, Saarland, Saxony, Schleswig-Holstein. 3 – Also includes requested capacity from previous years. 4 – Data was available in days and was converted to months by dividing by 30 days. 5 – Data for the year 2024. Only states that provided data for all three variables in the monitor are shown. BB- Brandenburg, HE-Hesse, SL-Saarland, RP-Rhineland-Palatinate, SN-Saxony, SH- Schleswig-Holstein, NW-North Rhine-Westphalia, BW-Baden-Württemberg.

Source: Goal100

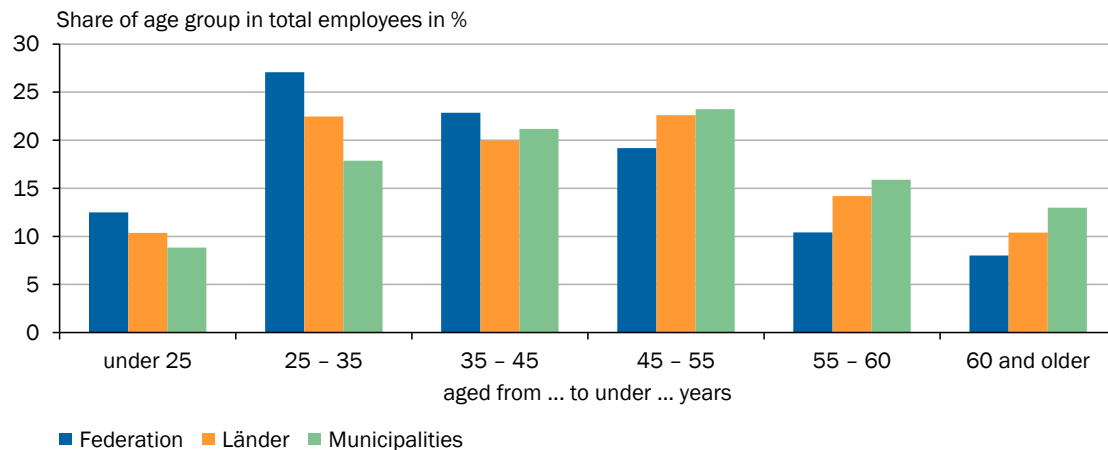
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- 223. Adequate staffing is a prerequisite for administration to function properly. Demographic ageing** and the associated need for replacement could exacerbate the labour-force shortage in public administration over the coming years. The proportion of employees over the age of 55 in the general services sector was 24 % in 2023. ↘ **CHART 43** This means that almost **a quarter of current administrative staff will retire over the next ten years**. In its analysis of

➤ CHART 43

Employees in the public sector in the area of general services in 2023¹

On average, around 24 % of employees are aged 55 or older



1 – Reporting date 30 June 2023.

Sources: Federal Statistical Office, own calculations

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occupations with shortages for 2023, the Federal Employment Agency does not classify the key occupational groups for public administration as shortage occupations but places them on its watchlist (BA, 2024). They could therefore become shortage occupations.

- 224. Administrative staff is often inadequately deployed.** Surveys of local authorities show that hardly any **systematic management methods** are used that set clear objectives of which the achievement can be measured by key metrics (Weiß and Schubert, 2020; Englmaier et al., 2022; Kuhlmann, 2024). There is also very little organisational learning from rewarding suggestions for improvements or cross-community exchange. Although performance-related remuneration is formally in place, it is very rarely based on real differences in performance because of the lack of measurability and acceptance. Digital technology is insufficiently used (Englmaier et al., 2022). The rigid career system means that there are very few lateral entries in Germany compared with other countries (Hammerschmid and Hustedt, 2020). Only around 9 % of managers in federal and regional ministries and subordinate authorities have more than five years of professional experience in the private sector (Lapiente et al., 2020). Roles at the departmental managerial level in the federal ministries and higher federal authorities are dominated by traditional career civil servants who have very little experience in the private sector (Ebinger and Jochheim, 2009; Ebinger et al., 2018). Political loyalty and extensive previous administrative experience are an advantage for senior positions in administration (Bach and Veit, 2017).

4. User-friendliness and digital technology

- 225.** The bureaucratic costs incurred by companies depend not only on the content of information requirements and the administrative process but also on how user-friendly interactions with authorities are. **Digital or automated implemen-**

tation of legal requirements can **reduce** the **effort** involved and thus the costs for businesses.

226. In the area of **digitalisation**, there is **great potential in Germany to increase user-friendliness**. [↗ BOX 16](#) Many administrative processes are not digitalised end-to-end and data often has to be provided multiple times by firms even though it is already available in the administrative system (BDI, 2024). Unlike many other countries, **Germany lacks a central e-government platform** that combines municipalities' and federal states' existing online portals for users (NKR, 2025b). Given its economies of scale, a centralised platform could be operated more cost-effectively. [↗ ITEM 220](#) In Estonia [↗ BOX 10](#), for example, all administrative services for citizens have been offered digitally since 2025. Services are processed digitally through a user account on the central e-government platform, where businesses use an electronic ID to authenticate themselves (European Commission, 2022; Kriisa, 2025).
227. One example of **successful process digitalisation in Germany** is **ELSTER** for electronic **tax returns**. Individuals can use a service account to transfer their tax data digitally and communicate with the tax authorities (BayLfSt, 2025a). Tax returns in ELSTER are pre-filled using stored data and certificates (BayLfSt, 2025b) as an additional service. Tax assessments are issued digitally as part of a (partially) automated process. ELSTER is also compatible with the interfaces of various accounting software programs (BayLfSt, 2025c). 99 % of firms' tax returns were transmitted using ELSTER in 2020 (BayLfSt, 2025a).

[↗ BOX 16](#)

Focus: digitalisation of administration

Germany is lagging behind when it comes to the digitalisation of administration. This can be seen, for example, in the European Union's **e-government performance score**, in which **Germany is in the bottom group**. [↗ CHART 44](#) This score factors in the dimensions of user-friendliness, transparency, technological requirements and cross-border availability of online public services. Germany made hardly any progress in the 2022/23 survey compared with the previous year and therefore fell further behind in the EU-wide comparison.

Digital technology is a key factor in making administrative processes and the administrative authorities' interactions with businesses and citizens more efficient. Various digitalisation projects are already enshrined in law. The **Online Access Act** (OZG, 2017), for example, came into force in 2017 and **obliges the federal as well as state-level governments to offer their administrative services through online portals within five years and to provide standardised access via a portal network**. As of April 2025, only 18.2 % of 7,052 digitisable administrative services were being provided in accordance with the OZG (BMI, 2025b). In addition to the OZG legislation, the OZG Amendment Act (OZGÄndG, 2024) adopted in 2024 commits the German government to the end-to-end digitalisation of essential administrative services, i.e. the exclusively digital processing of applications submitted online.

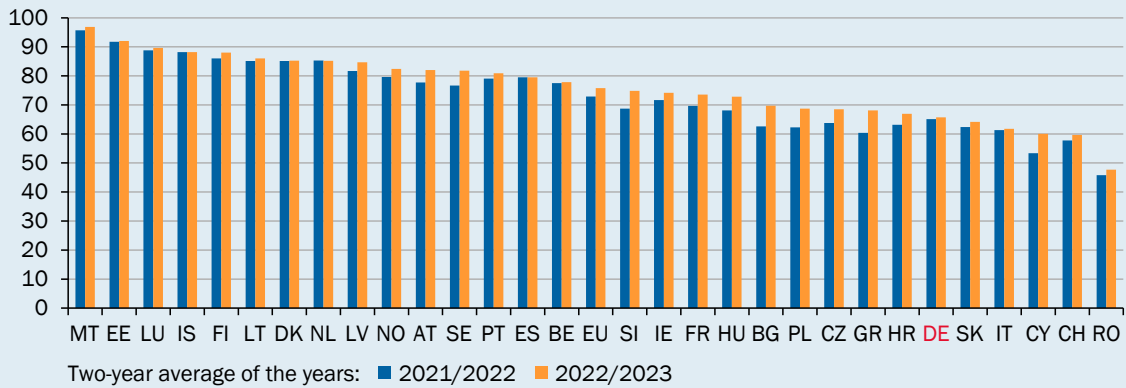
The use of AI also offers great potential. Cost savings that could be obtained from the widespread use of generative AI in public administration are estimated to be €23.9 billion over a ten-year period (Bolwin et al., 2024). These savings result from the use of AI to perform time-consuming, repetitive tasks in order to speed up administrative processes and deploy labour more productively. However, it is necessary to consider data protection laws that restrict the use of AI in some cases. [↗ BOX 11](#) Article 22 of the GDPR, for example, only allows fully automated

decision-making that has legal or significant consequences for the data subject in exceptional cases (European Parliament and Council of the European Union, 2016). Nonetheless, the use of AI can often be made GDPR-compliant (EPRS, 2020).

↗ CHART 44

A comparison of eGovernment performance scores¹ in European countries²

Germany is lagging behind in the provision of public online services



1 – The score evaluates public online services based on four dimensions with a maximum total score of 100 points: i) User-orientation – To what extent are the services offered online and how mobile-friendly are they? ii) Transparency – Clear information about the digital services offered and data processing? iii) Technological requirements – What are the requirements for using e-government services? iv) Cross-border services – How easily can citizens access online services abroad? 2 – MT-Malta, EE-Estonia, LU-Luxembourg, IS-Iceland, FI-Finland, LT-Lithuania, DK-Denmark, NL-Netherlands, LV-Latvia, NO-Norway, AT-Austria, SE-Sweden, PT-Portugal, ES-Spain, BE-Belgium, EU-European Union, SI-Slovenia, IE-Ireland, FR-France, HU-Hungary, BG-Bulgaria, PL-Poland, CZ-Czechia, GR-Greece, HR-Croatia, DE-Germany, SK-Slovakia, IT-Italy, CY-Cyprus, CH-Switzerland, RO-Romania.

Sources: Capgemini, European Commission

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Germany has already launched **individual AI initiatives** such as the F13 text assistant, which recently started supporting text creation and research tasks in public administrations in Baden-Württemberg (StM BW, 2023, 2024), and an AI application that will assist employees of the German Federal Pension Insurance (DRV) scheme with tax audits in the future (BMAS, 2024). In addition, AI-supported chatbots and virtual assistants are available around the clock and reduce waiting times. German government administrators use chatbots – known as Bundesbots – to answer citizens' questions about issues such as vehicle tax, the customs portal and the cross-border movement of goods and services (ITZBund, 2025). However, **AI is not yet widely used owing to a shortage of data, digital infrastructure and expertise** as well as a lack of centralised governance in the implementation of the National AI Strategy, which has been in place since 2018 (OECD, 2024).

A survey conducted in the autumn of 2023 revealed that **37 % of public authorities in the UK use AI, while a further 37 % are testing or actively planning to use it** (NAO, 2024). To expand this further, specific recommendations for the greater use of AI in the public sector were presented in the National Opportunities Action Plan in 2025 (UK government, 2025a). Among other things, the AI and IT infrastructure is to be expanded and more AI pilot projects are to be developed and scaled up in the public sector. Guidance on the use of AI will be provided to public-sector employees in the AI Playbook on the government website (UK government, 2025b). Realising the full potential of AI, which equates to automating around a third of all tasks, could save the UK public sector **£40 billion per year over the next five years** through productivity gains (Iosad et al., 2024).

228. The **once-only principle** would enable public authorities to retrieve documents and data that are already available from other authorities directly. This eliminates the need to submit and enter documents and data multiple times. The prerequisite for implementing the once-only principle is a comprehensive modernisation of the official data register (BMF, 2023; BVA, 2025; GCEE Annual Report 2023 items 532 and 537). In 2017 the NKR estimated the **potential macroeconomic cost savings** from modernising the register structure to be €6.0 billion per year, which corresponds to **€7.4 billion** in today's prices. Companies account for €1.0 billion or €1.2 billion of this amount annually. This is offset by one-off investment costs of €2.5 billion and €3.1 billion respectively (NKR, 2017).
229. The Register Modernisation Act (RegMoG) was passed in 2021 to implement the modernisation of data registers. There are currently **around 350 different official registers** and company databases in Germany, many of which **do not have data exchange interfaces** (BVA, 2023). The harmonisation of legal terms, the networking of public authorities for data exchange purposes and the introduction of identification numbers will form part of this modernisation process (BMF, 2024; BVA, 2025). A national Once-Only Technical System is to be developed to link the various data registers (BMI, 2024). Since 2024, firms have gradually been assigned a standardised national business identification number (BZSt, 2025b). In future, this number will enable authorities to retrieve company master data from a central master data register (BMWK, 2024). In order to maintain data control, its exchange should only take place with the data subjects' consent (BMF, 2023). Obtaining consent should therefore be integrated into the early phases of these processes. The once-only principle has already been fully implemented in Estonia, where users can track requests for their data and data exchange in their service account (European Commission, 2022).

V. INSTRUMENTS PREVIOUSLY USED TO REDUCE BUREAUCRACY

230. Both in Germany and at EU level there are various **mechanisms** for **reducing bureaucratic costs** and making new administrative requirements more efficient. Ex-ante instruments are intended to ensure that the procedures needed to implement a new regulation with a minimum of bureaucracy are already utilised during the legislative process. Ex-post instruments are designed to reduce the bureaucratic costs of existing regulation. The coalition agreement of the new government (CDU, CSU and SPD, 2025) specifies various measures to reduce bureaucracy. [↗ BOX 17](#)

[↗ BOX 17](#)

Focus: targets and measures for reducing bureaucracy in the governing coalition agreement signed by the CDU, CSU and SPD parties in 2025

The coalition agreement published on 9 April 2025 sets the target of **cutting bureaucratic costs** for companies by a total of 25 % over the course of the current legislative period (CDU, CSU and SPD, 2025). To this end, these parties have agreed on various measures. For example, **annual bureaucracy-reduction legislation** and **reforms of the ‘one-in-one-out’ rule** – which includes the reversal of exemptions and the inclusion of EU requirements – are intended to cut bureaucratic costs. In addition, the NKR is to become more important by reverting to the Federal Chancellery and being more closely involved in the legislative process. A **digital bureaucracy portal for users to report obstacles and submit suggestions for improvements** is being planned. There are also plans to further **reduce formal requirements**, in particular the written form. Tax bureaucracy is to be simplified by the pre-filling of tax returns and reduced through the greater use of flat rates. The **once-only principle** is to be **consistently implemented** by imposing an outright ban on the double collection of data from citizens and companies and introducing an obligation to exchange data within administrative authorities. A standardised procedural law for infrastructure projects is to be created to speed up the planning and approval process. To improve legislation, practicability checks are to be carried out in the early stages of the legislative process.

Administrative modernisation is to be achieved through the consistent implementation of **digital technology** and a ‘digital-only’ approach. Applications and administrative processes are to be pooled on a digital platform (one-stop shop), notarial procedures will be simplified and digital notarisation processes facilitated. In addition, every individual is to receive a citizen’s account and a digital identity. In the future, it should be possible to **set up a business within 24 hours**. A **more thorough understanding of data utilisation** is to be developed among administrative authorities. In addition, a cultural shift is being sought in the public sector, characterised by a supportive management culture, interdepartmental thinking, performance-driven career paths and greater interchange between public administration, business and science.

1. Ex-ante instruments

231. The **legislative impact assessment** (Section 44 GGO) outlines the main effects of new federal legislation. This includes the **bureaucratic costs** for firms **as a result of new laws**. [↗ BOX 8](#) The NKR examines the relevant cost estimates as

part of its remit. [↘ BOX 12](#) The **systematic presentation** of bureaucratic costs can help to highlight unintended consequences and inform the public and parliament.

The **Better Regulation Guidelines** require a **comprehensive regulatory impact assessment** at the EU level (European Commission, 2021b). This impact assessment is conducted at the outset for all major legislative proposals submitted by the European Commission. A review and approval by the Regulatory Scrutiny Board is required. However, changes to the legislative process by the Council or Parliament are not included in this impact assessment (Draghi, 2024).

232. The digital feasibility of requirements can make a major contribution to reducing bureaucratic costs. **Digital checks** were introduced **at the federal level** in 2023 to ensure that the digital feasibility of regulation is taken into account in the legislative process (BMI, 2025c). [↘ BOX 18](#) The NKR's [↘ BOX 12](#) opinions on draft laws [↘ BACKGROUND INFO 6](#) consider whether the full potential for digital implementation of the proposed regulation has been examined. The effectiveness of digital checks is likely to depend, above all, on their practicability. If digital checks are conducted in close cooperation with the enforcing authority, as in the case of electricity tax law [↘ BOX 18](#), this could lead to the automation of single process steps.

[↘ BOX 18](#)

Focus: digital checks in electricity tax law

The digital checks introduced in 2023 are intended to ensure that digital technology is taken into account from the outset – particularly by legislators at the ministry responsible – when drafting new legislation. Accordingly, new laws should **uphold** the following **five basic principles**: they should **enable digital communication**, **the data collected should be reusable**, **data protection should be guaranteed**, **the rules should be understandable** and **the processes involved should be automatable** (BMI, 2025d).

The **draft law to reduce bureaucracy and modernise electricity and energy tax law** (Bundesregierung, 2024g) can be used to show how **digital enforcement is considered during the drafting of legal texts**. The purpose of this law is the modernisation of electricity and energy tax law. The Federal Ministry of Finance carried out a **digital check** in cooperation with DigitalService GmbH, a federal digitalisation agency, to initiate the digitalisation process. To this end, communication took place with the main customs offices as the enforcing authorities. The **enforcement process was visualised in a flowchart and attached to the draft law** (Bundesregierung, 2024g; Liebig et al., 2024).

An **online application requirement** was subsequently **introduced** for digital communication in the Electricity and Energy Tax Act (Bundesregierung, 2024g). This will enable (partially) automated processing of applications for relief from 2025 onwards (Bundesregierung, 2024g). This was necessary in order to cope administratively with the expected increase in initial applications from around 30,000 to 660,000 per year owing to the expansion of electricity tax relief in accordance with Section 9b of the Electricity Tax Act (StrStG). Submission and retention obligations in the electricity and energy tax implementation regulations have been weakened in order to enable applications to be submitted and processed as automatically as possible (Section 11 EnergieStV, Section 1 StromStV). The regular bureaucratic costs for businesses were reduced by €15.4 million per year as a result of this law (NKR, 2024c).

This example shows that digital checks can be used to help digitalise administrative processes. **The general reduction in the electricity tax** to the European minimum stipulated in the

governing coalition agreement **would achieve greater relief** in terms of bureaucratic **costs than the previous expansion of exemptions** (GCEE Special Report 2019 item 197; GCEE Annual Report 2020 items 391 ff.; GCEE Annual Report 2022 item 196). However, this is associated with higher fiscal costs and other distributional effects.

2. Ex-post instruments

233. The Federal Ministry of Economic Affairs and Climate Protection (BMWK) devised ‘**practicability checks**’ in 2022 in order to strengthen the enforcement prospects and user-friendliness of future legislative processes. **The BMWK systematically analyses the practicability of an entire application process** in which various regulations are interlinked. This analysis is carried out **with the involvement of affected businesses and the implementing authorities**. It therefore determines which regulations make implementation disproportionately difficult and slow it down. The obstacles identified are then removed or simplified across departments (BMWK, 2023b).

A **practicability check**, for example, was carried out on the process of **installing and operating photovoltaic (PV) assets**. The **entire process chain** was **analysed** with the support of energy experts from the German Retail Association and SMEs. This process begins with the decision to install a PV system and ends with the first kilowatt hour (kWh) produced. Over **50 obstacles** to commercial and private PV expansion were **identified**. These will **be dismantled** as part of various legislative initiatives (BMWK, 2023b). Solar Pact I, for example, will reduce one-off bureaucratic costs by €27.1 million and will cut regular bureaucratic costs by €0.4 million (Bundesregierung, 2023c).

234. Four **Bureaucracy Relief Acts** (BEGs) have been passed since 2015. [↪ BACKGROUND INFO 9](#) Unlike the one-in-one-out rule [↪ ITEM 237](#), these Bureaucracy Relief Acts **do not address the current increase in regulations but are intended to reduce the stock of existing ones**. Each Bureaucracy Relief Act combines various individual measures that eventually cut bureaucratic costs. These include the shortening of retention periods for receipts and the conversion of written-form requirements into text-form requirements. While written form requires a handwritten signature on documents, text form does not (Section 126 of the German Civil Code [BGB]). The written-form requirement for commercial leases, for example, has been downgraded to text form (Bundesregierung, 2024c). Compared with the total amount of bureaucratic costs under federal law, however, the reduction provided by BEGs I to IV has been purely symbolic.



[↪ BACKGROUND INFO 9](#)

Bureaucracy Relief Acts I to IV

A total of four Bureaucracy Relief Acts (BEGs) have been passed at the federal level since 2015. According to the Federal Statistical Office (2025a), BEG I provided a total relief worth €171 million to companies. Among other things, it simplified church-tax deduction procedures and raised the thresholds for tax and commercial

accounting and record-keeping requirements. BEG II, adopted in 2017, provided a total relief worth €1,583 million to businesses. In particular, it included **an increase in the limit on small-value invoices and simplifications in the storage of delivery notes.** BEG III came into force in 2020 and resulted in a relief totalling €621 million for companies. The **introduction of electronic certificates of incapacity for work** represents a key element of this act. The measures introduced by BEG IV in 2024 include the abolition of the hotel-registration requirement for German nationals. In addition, a **central database for powers of attorney relating to social security funds** will be set up on 1 January 2028. BEG IV will reduce bureaucratic costs for businesses by around €309 million. The German government's growth initiative launched in 2024 envisaged defining a statutory cost-reduction path which was meant to be realised with the help of annual BEGs (Bundesregierung, 2024b).

235. Sunset clauses are occasionally used in Germany. **These clauses stipulate laws with a fixed end date.** If the legislation shall continue to apply after this date, this requires **a new resolution by the legislator** (GCEE Annual Report 2024 item 169). Sunset clauses could help to reduce the density of regulation. At the federal level, for example, they are used for tax allowances. Of the 108 tax allowances established for the years 2021 to 2024, 15 are limited in their duration (BMWK, 2025a). In other countries, sunset clauses are mainly used to improve rather than reduce requirements (OECD, 2020). However, relevant rules often only set review dates [▶ ITEM 212](#) rather than genuine sunset clauses. The review processes are administratively complex, especially if the sunset clauses for the regulation concerned are subsequently extended and a further review is required after two to three years (OECD and KDI, 2017).
236. In the past, the NKR has suggested that sunset clauses be applied selectively. Such clauses could, for example, be useful for requirements in areas characterised by **rapid technological change.** In contrast, the NKR takes a critical view of time limits for all administrative requirements, as this could result in legal uncertainty and automatic extensions (NKR, 2010). If sunset clauses are only used specifically for laws with extensive information requirements, scarce review resources could be focused on measures that have a major impact. This could make the problem of **automatic extensions** less relevant, as legislators would have an incentive to abolish regulation that is burdensome for citizens and firms.
237. The **one-in-one-out rule** was introduced in Germany in 2015 in order to permanently limit compliance costs [▶ GLOSSARY](#) for businesses. **Requirements that place a burden on companies are offset by other requirements that reduce the burden by the same amount by the end of the legislative period** (NKR, 2025c). A similar one-in-one-out rule has been applied at the EU level since 2021 (European Commission, 2023b). However, both one-in-one-out rules relate to total compliance costs rather than just administrative costs. [▶ BOX 8](#) Consequently, measures that reduce compliance costs but not administrative costs are included in the one-in-one-out balance sheet. The 2022 Act to Strengthen Inclusion, for example, produced a net 'out' of €4.4 million without cutting bureaucratic costs (Bundesregierung, 2021b). The one-in-one-out rule is therefore not sufficiently targeted to reduce bureaucratic costs. In addition, regulation at-

tributable to the implementation of EU law is excluded from the one-in-one-out rule, meaning that its balance sheet is not very meaningful (NKR, 2024a).

238. The EU's **Regulatory Fitness and Performance Programme (REFIT)** was launched by the European Commission in 2012 to review and simplify existing legislation (NKR, 2019). As part of REFIT, **all existing EU legislation is systematically assessed in terms of its effectiveness and efficiency** to identify potential simplifications and opportunities to reduce burdens. The results of these assessments are recorded on the REFIT scoreboard, which provides an overview of the various initiatives and their current status in different policy areas (European Commission, 2025e). The scoreboard tracks the **entire lawmaking process from the legislative phase through to implementation** and shows the extent to which the measures proposed to reduce and simplify burdens have been retained or modified. It also identifies areas in which member states have introduced additional regulatory burdens during implementation or have not fully realised the benefits of EU-wide relief measures. This programme has helped mitigate regulatory burdens – in particular by identifying and removing bureaucratic hurdles. However, a specific quantification of the cost savings involved varies depending on the policy area concerned (NKR, 2019).

VI. OPTIONS FOR ACTION

239. Businesses are confronted with bureaucracy in almost all areas. These include data protection, general accounting, VAT returns and human resources. **Various measures are already being implemented to cut the cost of bureaucracy** in Germany. [↗ ITEMS 230 FF.](#) Bureaucracy Relief Acts, fast-track approval procedures for onshore wind turbines, and digital and practicability checks have all reduced bureaucracy costs in certain areas. [↗ BACKGROUND INFO 9 ↗ BOX 15 ↗ BOX 18](#) However, these measures often only relate to a small proportion of firms' total bureaucratic costs and do not affect many businesses.
240. The bureaucratic cost of achieving a given goal should be as low as possible. **It is the task of policymakers** to identify specific **goals** and **select** suitable and **effective instruments** to achieve them. Scientific policy advice can support legislators in making the necessary judgements in each individual case, for example by examining the effectiveness of the measures proposed. **Clear recommendations** as to the direction in which a **conflict of objectives should be resolved are usually not possible without judgement** and are therefore **not the focus of scientific policy advice**. The objectives pursued through legislation are not scrutinised within the framework of a scientific efficiency calculation. When discussing potential courses of action, the GCEE therefore concentrates on identifying instruments that avoid an excessive bureaucratic workload through legislation. It is up to legislators to keep an eye on the type and intensity of the underlying regulation.

241. **Reforms** that simplify a large number of administrative processes and remove bureaucratic obstacles **could have a positive impact on economic growth**. [↘ ITEM 198](#) A substantial reduction in bureaucracy would trigger various processes simultaneously. These include reducing and automating information requirements, speeding up application and approval processes, setting up a comprehensive e-government portal and digitalising public administration to make it more user-friendly. If the issue of **reducing bureaucracy** were **declared a top priority** at the highest political decision-making level, the **necessary reforms** could **be initiated in a timely manner**.

1. Reducing and avoiding bureaucratic costs

Ex-post measures

242. **Further cutting costs arising from information requirements** might require **expanding measures** that have only brought **selective relief** under previous Bureaucracy Relief Acts. [↘ BACKGROUND INFO 9](#) Various written-form requirements, for example, were converted into text-form requirements as part of BEG IV (Bundesregierung, 2024c). [↘ ITEM 234](#) Nevertheless, there are still potentially unnecessary written-form requirements. **AI** in the form of large language models can help to quickly and efficiently **identify** specifications such as written-form requirements **causing media breaks in digitisable processes**. These could be reviewed and reformed as part of further legislation to reduce bureaucracy. The greater prevalence of text-form requirements over written-form requirements would enable information requirements to be increasingly fulfilled digitally or even automatically. [↘ ITEM 227](#)
243. Bureaucratic costs could also be **reduced by making the associated administrative processes** more **user-friendly**. Digital interfaces and pre-filled forms, for example, can facilitate the (partially) automated fulfilment of information requirements. [↘ ITEM 225](#) **Digital one-stop shops** could increasingly be **offered for process chains**. [↘ BOX 9](#) The example of setting up a business in Germany [↘ BOX 10](#) shows that different procedures that are part of a coherent process sometimes have to be handled by different authorities. A single point of contact reduces the cost of obtaining information and the bureaucratic obstacles facing users. **Swift implementation of the once-only principle** [↘ ITEMS 228 F.](#) could also bring considerable relief. A significant **acceleration of data-register modernisation** would be a prerequisite for this.
244. **Deemed approvals have so far only been** used **selectively** in Germany to speed up administrative processes. Such approvals mean that an approval applied for is deemed to have been granted after the expiry of a specified period (Section 42a VwVfG). A **federal-state pact** (GCEE Annual Report 2024 item 136) introduced deemed approvals for **the erection of mobile-phone masts and in residential construction**. A deemed approval applies to **changes to the types of wind turbines** when such turbines are being built. [↘ BOX 15](#) A deemed approval for residential construction was introduced in Brandenburg back in 2020 and in Bavaria in 2021 (Bundesregierung, 2024h; StMB, 2021). The success

of these measures could be evaluated across federal states after an appropriate period of time. If the results of these evaluation are positive, deemed approvals could be extended to cover comparable procedures. In order to **reduce uncertainty** among applicants as to whether an approval has actually been granted after the relevant deadline, an automatic confirmation could be sent by email. One candidate for such deemed approvals could be the work permits granted to asylum seekers and ‘tolerated’ refugees planned by the German government in the summer of 2024. This could take effect, for example, after a period of 30 days from the date of application (Bundesregierung, 2024i).

245. Current initiatives to **digitalise public administration**, such as the implementation of the OZG, are moving in the right direction but are not progressing quickly enough. [↘ BOX 16](#) In order to accelerate this process and utilise **cost benefits**, [↘ ITEM 220](#) for example, **standard IT solutions** could be provided **nationwide** for municipal administrative processes without municipal discretion, such as applying for housing benefits or an ID card (Adelskamp et al., 2021). Nationwide use of the German Administration Cloud (DVC), which has been available to all public administrative authorities and businesses since December 2024, could make a significant contribution here (Hauptmann, 2024).
246. The use of **AI could yield efficiency improvements** and cost savings in **public administration**. [↘ BOX 16](#) In addition to setting up the necessary AI and IT infrastructure and clarifying data protection issues, the **necessary prerequisites for this** include the training of staff. AI could also be helpful in establishing the interoperability of administrative software (Tangi et al., 2023). As part of a Spanish pilot project, for example, a previously manual and non-standardised means-testing of individuals with unpaid energy bills is being optimised through AI-supported, cross-agency and cross-company information procurement (AOC, 2023).
247. The actual level of bureaucratic costs in Germany is not officially recorded in many areas. A more comprehensive database of these costs could help to better understand and ultimately resolve discrepancies between the bureaucratic-cost assessments by legislators and those by businesses. A first step in this direction would be to amend the legal basis for estimating bureaucratic costs, which would **make it possible to link the business survey data collected by the Federal Statistical Office with the basic register**. This register contains the master data of all firms as well as identification numbers from other registers (Federal Statistical Office, 2025c). Such a link would make it possible to analyse how bureaucratic costs are transmitted to the wider economy. This would also enable us to evaluate relief measures and develop future strategies to reduce the bureaucratic burden in a targeted way.
248. **Regulatory measures should be scrutinised** if it is **unclear** whether they will **achieve the set objectives** and if they incur high costs. The Supply Chain Due Diligence Act (LkSG), for example, has been criticised for its lack of effectiveness (Board of Academic Advisors to the BMWK, 2025). [↘ BOX 13](#) The abolition of the LkSG planned in the current coalition agreement should make a noticeable contribution to reducing bureaucratic costs (CDU, CSU and SPD, 2025). Positive

lists of countries and companies that meet the required environmental and human-rights standards could be useful in limiting bureaucratic costs even under the Corporate Sustainability Due Diligence Directive (CSDDD) announced at the EU level for 2028 (Felbermayr et al., 2024). The CSDDD should be transposed into national law without any gold plating. [↗ BACKGROUND INFO 8](#)

Ex-ante measures

249. Ex-ante estimates of the follow-up costs of legislation are based on the German government's respective draft law (Section 44 GGO). [↗ ITEM 211](#) As bureaucratic costs can increase during the parliamentary process, they may be underestimated if this procedure is used. **A re-estimate of the bureaucratic costs, which is submitted to the Bundestag before the final vote** on the draft law, may be useful in some cases.
250. Draft laws are prepared in the government ministries by legal clerks, who often have a background in law (NKR, 2019). Unlike Switzerland, for example, Germany does not yet have a **specialised training programme for working as a legislator** (FOJ Switzerland, 2025; BMJ, 2025). Knowledge of the implementation of requirements in day-to-day business and the digitalisation of processes could be useful for drafting laws in a user-friendly way. The **Centre for Legislation**, founded in 2023, is based at the Federal Ministry of Justice (BMJ) and was meant to fill this gap. The aim of this centre is to devise standards to ensure the effectiveness, comprehensibility and applicability of laws (BMJ, 2024b). **A comprehensive range of services has not yet been established**, and funding for the project is not guaranteed beyond 2024 (NKR, 2024a). **Expansion of the Centre for Legislation could improve the quality of lawmaking**. In order to increase the practicability of laws, it might also make sense to involve more employees with different types of expertise – e.g. in IT or project management – in the preparation of legislation in government ministries. It would also be helpful if the Centre for Legislation were to devise standardised, consolidated guidance for drafting legislation and update it on an ongoing basis. [↗ ITEM 210](#) A customised training and advisory service should be developed along these lines (NKR, 2025a).
251. The **NKR's mandate** [↗ BOX 12](#) could be expanded to include further measures of quality control similar to digital checks. [↗ ITEM 232](#) This could enhance quality in the drafting of new laws in government ministries. [↗ BOX 12](#) The NKR, for example, could use a traffic-light system to **evaluate existing draft laws in terms of their effectiveness, user-friendliness and enforceability** and publish the results. Although these opinions would not be legally binding, they could create greater transparency. Furthermore, the German government could commit to commenting on the NKR's annual report in accordance with Section 6 (2) NKR, which often contains structural reform proposals for the legislative process. This could ensure that the recommendations in the report are actually scrutinised by the government.
252. It is legislators' responsibility to decide on the appropriate objectives of new regulation and to weigh up its intended effects against other consequences, such as indirect bureaucratic costs. [↗ ITEM 240](#) Particular attention should be paid here to

its **impact on the innovation activities** of firms and research institutions. A survey conducted between 2020 and 2022 found that around a quarter of the businesses surveyed stated that legislation and bureaucracy were an obstacle to innovation (Hottenrott et al., 2024). Laws can inhibit innovation if they **create barriers to market entry, raise direct innovation costs to a prohibitive level** or incur follow-up costs owing to **legal uncertainty**. Ambiguous requirements can create legal uncertainty, for example with regard to the use of AI (Gutjahr et al., 2023), thereby restricting its adaptation. Information requirements associated with high implementation costs, the procurement of special software or the commissioning of external service providers can also be a burden, especially for business start-ups with limited financial resources. However, these firms are often particularly innovative (Schnitzer and Watzinger, 2022).

253. In order to increase the innovation-friendliness of new laws, quality controls during the legislative process could be expanded to include **innovation checks**. The aim of these checks should be to identify and, if possible, avoid undesirable obstacles to innovation during the legislative process. Similar to digital checks, innovation checks could include a **preliminary examination** that determines the legislation's **relevance to innovation** (BMI, 2025c). If this is the case, the lead government ministry could, for example, work with the German Council of Science and Humanities or the Expert Commission for Research and Innovation as well as stakeholders from the respective field to identify potential obstacles to innovation and suggest options for innovation-friendly implementation. These options should be considered during the further legislative process and attached to the draft law. In addition, more **regulatory experimental spaces** [↗ GLOSSARY](#) ('regulatory sandboxes'; GCEE Annual Report 2024 item 291) could be set up to test the effects of innovation, from which both innovative firms and supervisory authorities can learn. The need for experimentation clauses – such as those used to test new postal models (Section 23 of the Postal Act) or driverless vehicles (Section 16 of the Autonomous Vehicles Approval and Operation Regulation [AF-GBV]) – is to be reviewed as standard for every draft law from the spring of 2025 onwards (BMWK, 2025b).

2. Strengthening the user perspective

254. Participation in the legislative process mainly involves well-organised interest groups representing the target groups concerned. [↗ BACKGROUND INFO 6](#) Individuals and non-organised businesses, on the other hand, are hardly considered. An **open digital participation platform** could supplement the existing process (NKR, 2019). This would allow citizens to informally contribute ideas for implementing new information requirements or improving the effectiveness of existing ones.

BundID could be used for identification purposes to reduce the possibility of the participation platform being misused. In order to **structure the participation process** systematically, legislation and draft laws could be categorised according to single paragraphs or requirements and commented on section by section. **AI could be used to analyse comments** efficiently. This could combine com-

ments with similar reform proposals, for example, and classify them according to their frequency. Suggestions that occur very frequently could be prioritised, while proposals that have already been reviewed could be excluded. The process could start at the national level but also include EU legislation and later be extended to the federal states. If the **findings** of the participation platform are made **publicly accessible**, this could **increase** their **binding effect**. In order to make the participation process as efficient as possible for users, the platform could make it possible to view categorised proposals already submitted by other users and to confirm them easily.

255. The Federal Statistical Office's estimates of bureaucratic costs only cover some of these costs. [↘ BOX 8](#) Costs incurred in the course of **application and approval processes** or lengthy administrative procedures are completely omitted. **Surveys of users** could be used to close this data gap at low cost. QR codes, for example, could be attached to applications for administrative acts, which could be used to provide brief feedback. Where digital processes are involved, pop-up windows could be used to provide low-threshold feedback on these processes. This service could be integrated into the participation platform. This would make it possible to collect data on the duration of the process, the costs incurred and the user-friendliness of the process without a great deal of effort. Data collected in this way would be distorted by selection effects (Bethlehem, 2010), as it is likely that more citizens with negative experiences would participate. However, administrative procedures that appear particularly complex from the user's perspective could be identified in this way.

3. Modernising the administrative culture

256. The use of **structured management methods** is a promising instrument for improving administrative quality. [↘ ITEM 224](#) These methods include the measurement and transparency of administrative performance [↘ ITEM 257](#) as well as the opportunity for employees to submit suggestions for improvements. The introduction of performance-related pay can strengthen employees' performance incentives in areas with clearly definable and measurable tasks (Speklé and Verbeeten, 2014). The employment service in the UK, for example, was able to increase its placement activity by introducing variable pay based on both quantitative (number of placements) and qualitative (placement quality) metrics (Burgess et al., 2017). Introducing performance-related pay can also have negative consequences, however, especially if the measurement of performance is incomplete and there is a shift in work performance towards measurable tasks, while non-measurable tasks are neglected (Holmstrom and Milgrom, 1991; Frey et al., 2013).
257. Greater competition between the administrative authorities of municipalities, districts and federal states could create incentives for administration to become results-driven rather than process-driven. This would require consistent **measurement of administrative performance** by a centralised body. The survey could be limited to a few key metrics such as the duration of processes or the satisfaction of businesses and citizens (Board of Academic Advisors to the BMWK, 2025). These key metrics could, for example, be published together with business

tax rates in the Digital Administration Dashboard (BMI, 2025e). A ranking that factors in the different resources of municipalities will make particularly efficient municipalities more visible. These could attract new businesses, which should improve their financial situation. ↘ [ITEM 204](#) The experience gained from reforming the Federal Employment Agency could also be utilised. ↘ [ITEM 205](#) Administrative staff could be given the necessary autonomy to achieve the desired results in their work by having greater personal responsibility and authority for making decisions (Board of Academic Advisors to the BMWK, 2025). At the same time, measuring administrative performance could enable internal controls to be used to manage administrative authorities effectively.

258. The high number of **individuals retiring** from the public administration offers an **opportunity to modernise the administrative culture** (Board of Academic Advisors to the BMWK, 2025). ↘ [ITEM 223](#) New management techniques and innovative stimuli could **come from individuals who have spent their careers working in the private sector, which is why it could make sense to recruit them in a targeted manner** (Lapiente et al., 2020). However, the rigid career system makes such lateral entries difficult, especially in managerial positions. ↘ [ITEM 224](#) By measuring performance more accurately, the appraisal system and promotion procedures could be reformed so that **managerial positions are filled primarily on the basis of performance rather than seniority** (PD, 2024). In addition, the training of administrative staff, which has so far been heavily dominated by legal expertise, could focus more on teaching digital and management skills in order to modernise administration (Scientific Advisory Board to the BMWK, 2025).

A differing opinion

259. Although one member of the GCEE, Veronika Grimm, shares the Council majority's view that bureaucratic costs should be significantly reduced, she does not consider the Council majority's approach to be correct.
260. The costs arising from government-imposed reporting and information requirements as well as behavioural requirements are placing an increasing burden on companies and the competitiveness of Germany as a business location. Against this backdrop, the chapter on reducing bureaucracy only covers the bureaucracy associated with the enforcement of regulation for those subject to it and administration, but not the rules themselves or the objectives they pursue. The Council majority justifies this by stating that "clear recommendations as to the direction in which a conflict of objectives should be resolved are usually not possible without judgement and are therefore not the focus of scientific policy advice" and notes that "the objectives pursued through legislation are not scrutinised within the framework of a scientific efficiency calculation" √ ITEM 240, see also √ ITEM 175. **In the last two decades, however, both the number of laws and their complexity have increased considerably in Germany and the EU** (see EFI, 2025, p. 32), **which is the main reason for the high cost of bureaucracy.** The dissenting Council member is of the view that good policy advice must therefore point out crucial conflicts of interest and provide suggestions as to how they can be resolved or at least mitigated – in particular by **abolishing or adapting regulation**. This is a **major contribution** to enabling the public and all bodies responsible for economic policy to form judgements (SachvRatG, Section 1 (1)).
261. **The dissenting Council member is of the view that it is not sensible to simply consider bureaucratic costs without scrutinising** the plethora of **regulation** with regard to existing obvious and hidden conflicting objectives and tensions. This is because the real challenges and obstacles to economic growth lie in the rules themselves. **Administrative resources are unlikely to be sufficient** to enforce major welfare reforms (such as rules to ensure fair competition) **if the administrative authorities are overwhelmed** by the obligation to enforce a large number of complicated and sometimes untargeted regulations (see Fernández-i-Marín et al., 2024; and, by way of example, DStGB, 2025; Der Spiegel, 2020). √ ITEM 223 Innovation and growth will also suffer as a result. The Council majority recognises this as well, for example in √ ITEMS 175, 181, 194 F., 198 F., 201, 204, 241 AND 252 F., but does not address the really decisive issue of reducing and adapting regulation. Unlike the chapter in this report, bureaucracy reduction in relevant publications usually covers all measures that relieve the burden of bureaucracy placed on citizens and businesses (see Klein, 2016; Schmidt, 2024; OECD, 2025). The spectrum of topics addressed here ranges from the abolition or adaptation of regulation to the digitalisation of administration. Looking at the efficient enforcement of regulation in isolation therefore falls short of the mark.
262. Technological progress and social change have led to the continuous expansion and increasing complexity of legislation and regulation in recent decades (Katz et

al., 2020). ^{↘ ITEM 213} Although new regulations have been created for new technologies and developments, old ones have very rarely been dismantled (Coupette et al., 2021). As the costs of both applying the law and complying with regulation grow disproportionately with the number and complexity of rules, bureaucratic costs can only be contained if **continuous efforts are made to simplify legislation and make it more transparent** – rather than just the bureaucratic obligations associated with it (Schmidt, 2024).

263. While it is challenging to discuss in detail the possibilities for reducing and adapting regulation in a chapter of this report, the dissenting Council member believes that at least some structural aspects should be addressed and the importance of reducing regulation should be emphasised. **Real solutions can only be achieved by cutting regulation**, and only then can barriers to growth and innovation be effectively removed.

1. Cutting bureaucracy must involve reducing and adapting regulation

264. **Merely simplifying the processes** for enforcing and complying with rules is **not enough**. The volume and complexity of regulation continues to overwhelm the administrative authorities, businesses and, possibly, citizens as well. Only a combination of optimising administrative processes, reducing compliance costs and critically reviewing and dismantling regulation will produce genuine solutions. The need to consider these aspects together is being exacerbated by the growing shortage of staff on both sides – at companies and in public administration (Fernández-i-Marín et al., 2024). Limited human resources ^{↘ ITEM 223} are increasingly making it impossible to implement all government requirements with legal certainty and to monitor them effectively (see Fernández-i-Marín et al., 2024; and DStGB, 2025; Der Spiegel, 2020).
265. A streamlined, **comprehensible and prioritised set of regulations** is therefore **essential** in order to be able to use existing **resources to enforce regulation** and **free up capacity for transformative tasks** such as the digitalisation of administration. These digital resources should be used in the right place, which is not always successful. Most recently, the processing of applications for exemption from the long-discussed, controversial electricity tax (GCEE Annual Report 2020 items 391 ff.) was (partially) automated. ^{↘ BOX 18} The governing coalition agreement stipulates that this tax is now to be reduced to the European minimum for all consumers, which is why no exemption applications will have to be submitted in future. Although the Council majority concedes this, ^{↘ BOX 18} it does not conclude that these considerations should be prioritised in general or that further options should be presented as examples.
266. Procedural adjustments such as an extension of deemed approvals – i.e. the automatic approval of applications after the deadline has passed (and the Council majority proposes a review of such extensions here ^{↘ ITEM 244}) – can only yield positive results if the administrative authorities are able to sift through the submitted processes within a reasonable period of time and then deal with them as part of a

comprehensible prioritisation process. If the human resources or structural capacity for this task are inadequate, however, there is a risk that applications will be wrongly rejected because it is not even possible to review them and thus identify the applications that require closer scrutiny. Erroneous decisions then remain undetected and important checks do not take place, which has correspondingly negative consequences for legal certainty, quality and trust. **To ensure that deemed approvals do not become the default option – creating incalculable risks** – but instead contribute to a real gain in efficiency, **it is therefore essential to relieve some of the administrative burden in advance** by reducing superfluous ↘ ITEMS 271 FF. and non-priority ↘ ITEMS 273 FF. regulation.

267. **Location quality is perceived to be low in recent surveys (KPMG, 2024)** ↘ ITEMS 177 F. AND 185 F. ↘ CHARTS 32 AND 34 and **bureaucracy is the dominant negative factor influencing the attractiveness of a location** (Dörr et al., 2024). ↘ ITEM 185 Reporting requirements and due diligence obligations significantly increase firms' costs. ↘ ITEM 182 Despite repeated efforts to reduce bureaucracy, the compliance costs for businesses have risen significantly in recent years. ↘ ITEM 185 The main text notes a discrepancy here between measured bureaucracy costs, which are falling in some cases, and the results of business surveys. ↘ ITEMS 185 FF. In particular, new reporting obligations – such as those arising from the Supply Chain Due Diligence Act (LkSG), the EU Taxonomy and the sustainability requirements of the Corporate Sustainability Due Diligence Directive (CSDDD) – are imposing additional costs in the form of complex verification procedures and time-consuming documentation.
268. Unlike the long-established commercial and tax-law requirements, for the implementation of which regulated processes and specific qualifications exist, these new requirements are likely to pose additional challenges for small and medium-sized enterprises in particular. The necessary expertise often has to be acquired first, staff trained or external support brought in. All in all, this increases not only the administrative burden but also uncertainty. This regulation makes it **less attractive for businesses to locate in Germany or Europe than in other parts of the world**, where the usual bureaucracy (payroll and tax issues) also occurs but there are no additional reporting and documentation requirements arising from many other regulations. ↘ ITEMS 271 FF.
269. Differences between countries in the bureaucracy cost index and other measures of the burden of bureaucracy, which the Council majority discusses in Section II.2 of the chapter, ↘ ITEMS 188 F. result not only from the work involved in implementing and enforcing regulation but also from the complexity and density of the regulation itself (Falck et al., 2024; Knill et al., 2024b). **The more different objectives are pursued** and the more detailed and technology-specific the requirements are, **the greater the effort required to understand it in the first place and to implement it in a legally compliant way** – regardless of how efficiently the public administration works. At the same time, inefficient or poorly digitalised administrative processes further increase bureaucratic costs.
270. If you want to reduce bureaucracy effectively, you therefore need to focus on several areas: the **abolition and adaptation of rules; clearer, simpler regu-**

lation; and modern, resource-saving administrative practices. A few starting points for the abolition and adaptation of rules are therefore discussed below.

Abolish or adapt inappropriate regulation

271. Regulation should be dismantled wherever it is inappropriate or even counterproductive. In **environmental law and climate protection** it would be **feasible to simplify** the often very detailed and highly regionally divergent **requirements** without jeopardising fundamental objectives. In climate protection, for example, the achievement of targets is already largely ensured by emissions trading schemes (see also EFI, 2025). The regulatory maze in the field of hydrogen production described in Albuscheit et al. (2025) is an example of how dismantling regulation and focusing on key instruments could even make a positive contribution to achieving the relevant targets. There is also **considerable scope for simplifying building law**, which could reduce administrative costs and boost construction activity (GCEE Annual Report 2024 item 353 and box 21). However, the amendment to the Federal Building Code has not yet been adopted (Haufe, 2024), although deregulation would be possible far beyond the current draft – for example by significantly deviating from excessive standards (see also GCEE Annual Report 2024 item 386).
272. Another current example of complex but ineffective regulation is the Supply Chain Due Diligence Act (LkSG) and similar **sustainability requirements** at European level (CSDDD). ↘ ITEMS 216 AND 248 ↘ BOX 13 Firstly, if the **effectiveness of this regulation with regard to its objectives is not ensured**, the intended effects could even be reversed (Felbermayr et al., 2022). Secondly, regulation often prompts evasive reactions on the part of businesses – such as shortening or relocating their supply chains. This destroys economic potential, especially in developing and emerging markets – precisely where improvements in prosperity are particularly urgent. ↘ BOX 13 And, thirdly, these one-sided requirements make international economic cooperation more difficult. Many trading partners outside Europe perceive European regulation as patronising and a barrier to trade, which reduces their willingness to collaborate and ultimately harms the global impact of European sustainability goals (Grimm et al., 2023). In addition, the competitiveness of the European economy suffers from the increasing reporting obligations and verification requirements, which place a disproportionate burden on small and medium-sized enterprises. A more balanced policy that strengthens market dynamics and involves international partners is likely to be considerably more effective in the long term. This is one of the reasons why the reporting requirements relating to the LkSG are now to be abolished by the new German government (CDU, CSU and SPD, 2025). This point is actually conceded by the Council majority, although ↘ ITEM 248 would retain the CSDDD. ↘ ITEM 248 Using positive lists or simply abandoning gold plating, which is discussed by the Council majority, ↘ BOX 13 does not address the problems mentioned above.

Scrutinising growth-inhibiting regulation and innovation checks for new legislation

273. Regulation should also be critically scrutinised where it inhibits growth and creates high levels of bureaucracy. In addition to the areas already discussed above – sustainability legislation and building law – Feld, Grimm and Wieland (2025) name two other key areas of regulation that offer considerable potential to reduce the burden on business and administration. In the area of **labour market regulation**, for example, **rigid requirements could be made more flexible in order to boost employment**. This decisive advantage in Estonia and Denmark (see e.g. Meier, 2018) nurtures start-up businesses there. The cost of failure in Germany is increased by rigid labour market regulation (Coatanlem and Coste, 2024). The main text only discusses administrative processes here without addressing differences in legislation in the countries analysed. ↘ BOX 10 Rigid labour market regulation also imposes high compliance costs (cf. Feld et al., 2025), which is why the governing coalition agreement advocates limits on weekly working hours rather than daily working hours (CDU, CSU and SPD, 2025).
274. **Data protection** ↘ ITEMS 182, 199, 217 AND 232 ↘ BOXES 11 AND 18 could be made more efficient by **simplifying information requirements, standardising regulation, adapting data-protection requirements to the actual sensitivity of the data and concentrating reporting requirements on material breaches**. Data protection should also be adapted so that AI can be used throughout public administration. ↘ ITEMS 242, 246 AND 254 Cooperation between data-protection authorities and businesses could be improved through greater consultation, pragmatic interpretation and, possibly, adjustments to the GDPR – without lowering the level of protection but with significantly less work involved.
275. When new laws are being drafted, their practicability could be examined ex-ante and they could **be systematically assessed** to determine whether the planned **regulation potentially inhibits innovation**. While the Council majority does not scrutinise existing legislation, such innovation checks are discussed in detail and evaluated positively in the main text. ↘ ITEMS 252 FF.

2. Overemphasising the precautionary principle inhibits innovation and incurs high indirect costs

276. The precautionary principle is deeply rooted within the EU. Although the Treaty on the Functioning of the European Union (TFEU) emphasises environmental legislation in particular, this principle is increasingly being extended to other policy areas and used as an argument in the regulation of new technologies such as genetic engineering and artificial intelligence. However, it **can become a weakness of the European regulatory approach if the precautionary principle is applied too broadly or in the wrong places**. It aims to avert risk at an early stage – often even in cases where scientific evidence of a specific hazard is not yet fully available. This becomes problematic if the precautionary principle

becomes an obstacle to innovation because potential risks are overestimated and opportunities are systematically underestimated.

277. In practice this often means that **new technologies** – such as genetic engineering, AI, nuclear technology, synthetic fuels and new materials – **are approved much more slowly or are constrained by very strict requirements from the outset**. In contrast, the United States and, increasingly, Asian countries are focusing more on the principle of innovation – in other words, taking on more risk initially and then managing it instead of putting the brakes on innovation from the outset. Although this does not mean that the precautionary principle should be totally abandoned, the potential for innovation needs to be properly considered in legislation. ↘ ITEM 252 Given the highly dynamic global environment, the current fixation on risk avoidance will otherwise increasingly become a competitive disadvantage.

3. Bold use of AI requires regulatory adjustments

278. A significant contribution to reducing compliance costs can be made by digitalising administration and using cloud solutions and modern technology. ↘ ITEM 245 The use of **artificial intelligence (AI) to automate public administration** can make administrative processes more efficient by automating routine tasks such as application processing, document checking and data synchronisation (Kussel et al., 2024). ↘ ITEM 246 Instead of laboriously harmonising existing, often incompatible IT systems, **AI could establish a higher-level interface (middleware)** that intelligently links different data formats and administrative logics and thus establishes interoperability. ↘ ITEM 246 Such a leapfrogging approach could make it possible to overcome outdated structures and avoid the immense obstacles that would be associated with harmonisation. AI-supported systems could be introduced step by step in public administration and built to be interoperable and scalable from the outset (Feld et al., 2025). Standards and interfaces need to be defined as part of the German Administrative Cloud Strategy (VCS) (Kussel et al., 2024). In order to utilise the innovative power and size of hyperscalers without compromising on sovereignty and security, a multi-cloud strategy that incorporates various cloud providers and usage models would be required. This would allow authorities to digitalise faster, reduce bureaucratic costs and improve the quality of service for citizens and businesses. Scalability would be significantly enhanced by expanding data exchange and making it easier for authorities to access databases. This is likely to require adjustments to data protection.
279. The development and use of **AI-supported administrative solutions** would also **strengthen** the European and, in particular, German **start-up landscapes**, as innovative firms could develop and scale new technologies for the public sector. A targeted focus on **European providers** would promote technological sovereignty and reduce reliance on non-European IT groups. In addition, **AI start-ups** could establish themselves **in areas such as process automation, cyber security and data analysis** and benefit from early collaboration with public authorities. This would result in more efficient administration and trigger a growth spurt for the European tech sector.

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