Standard Cost Model: Three Different Paths and their Common Problems

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Abstract

Red tape is not desirable as it impedes business growth. Relief from the administrative burdens that businesses face due to legislation can benefit the whole economy, especially at times of recession. However, recent governmental initiatives aimed at reducing administrative burdens have encountered some success, but also failures. This article compares three national initiatives – in the Netherlands, UK and Italy - aimed at cutting red tape by using the Standard Cost Model. Findings highlight the factors affecting the outcomes of measurement and reduction plans and ways to improve the Standard Cost Model methodology.

Keywords

Administrative burdens; Red tape; Standard Cost Model

IN RECENT YEARS, THERE HAS BEEN AN INCREASING NUMBER OF GOVERNMENT initiatives dedicated to reducing the administrative burdens placed on businesses by legislation (Coursey and Pandey, 2007; Pandey and Moynihan, 2006). These initiatives could potentially bring about enormous benefits for the economy. For instance, it has been estimated that administrative burdens in the UK amount to £ 14 billion, negatively affecting about 1.4 per cent of the national GDP (World Bank, 2005). At the same time, projects aimed at measuring and then reducing red tape can be highly demanding both in terms of public administration resources and the amount of data required from business and government departments (Bozeman, 1993 and 2000). Recent governmental initiatives aimed at reducing the administrative costs of regulation have encountered some success but also failures. The lessons from these initiatives on reducing the administrative costs of regulation are particularly interesting when considering the expected rise in financial regulation (Baldwin and Black, 2008) and environmental regulation (Rothstein et al., 2006) over the next few years. It is therefore important to examine different national practices in order to understand the successes and failures of governments' attempts to dispose of red tape.

This article examines recent Dutch, British and Italian experiences in measuring and reducing the administrative burdens imposed on businesses by existing legislation. The Netherlands, the UK and Italy have been chosen because of their significantly different approaches. The Netherlands was the first European country to systematically measure quantitatively administrative burdens on business by implementing the Standard Cost Model (SCM), a method to quantitatively appraise the administrative burdens on businesses, breaking down regulation into information obligations. It was also the first country to set a goal of 25 per cent reduction of the overall administrative placed on businesses by legislation. The British government adopted the Dutch model, carrying out a one-off measurement of all administrative burdens produced by UK and EU legislation to

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the year 2006. Italy embraced a completely different approach, deciding to gradually measure the red tape produced by government legislation sector by sector.

The article begins by introducing the SCM (Section 2). It describes the Dutch (Section 3), British (Section 4) and Italian (Section 5) experiences with measuring and reducing administrative burdens on business. It subsequently qualitatively compares the institutional contexts and applications of the SCM practices of these three countries (Section 6). The article concludes by providing recommendations on ways to improve the SCM methodology and reflecting on the future of this instrument (Section 7).

The Standard Cost Model

Measuring administrative costs

Every piece of legislation imposes different costs on businesses, the state, private individuals and households (Booth, 1997; Pandey and Scott, 2002). The SCM specifically sets out to measure and eliminate parts of legislation which impose excessive administrative costs on business. It has been applied by different public administrations to determine the administrative burdens related to existing and new legislation. It can be used to measure a single law, selected areas of legislation or to perform a baseline measurement of all legislation in a country. As a preliminary note, it should be noted that the applications of the SCM as implemented by the Governments examined in this article are simplifued versions of the original model as designed by Nijsen and Vellinga (2002). The main aim of the model is to ensure that existing regulations and new regulations do not impose excessive administrative burdens to businesses. The focus is not on the policy objectives of each regulation: the measurement focuses only on the administrative activities that must be undertaken in order to comply with regulation and not whether the regulation itself is reasonable or not.

The SCM focuses on the administrative compliance burdens that legislation imposes on businesses. It measures specifically those administrative activities businesses only conduct because regulation requires it. It does not consider direct financial costs, i.e. the direct obligation to transfer a sum of money to the Government or the competent authority, including administrative charges, taxes, etc.; capital costs, i.e. the total price spent in purchasing depreciable property, including buildings, equipment, etc.; and efficiency or indirect costs, i.e. lost innovation for time spent in non productive activities.

Methodology

The SCM is an activity-based measurement of the businesses' administrative burdens, breaking down regulation into a range of manageable components, named information obligations, that can be measured. Information obligations are the units of measurement of the model. They can be defined as the obligations arising from regulation to provide information and data to the public sector. In other words, an information obligation is a duty to procure or prepare information and subsequently make it available to either a public authority or a third party. It is an obligation businesses cannot decline without coming into conflict with the law (IWGAD, 2004). An information obligation does not necessarily mean that information has to be transferred to the public authority, but may include a duty to have information available for inspection or supply on request. A regulation may contain many information obligations. Typical examples of information obligations are: drawing up and registering annual accounts, applying for permits, general obligations to retain business records, provision of information on sick employees to

working conditions services, annual statement of employee insurance to social security body (BRE, 2005).

For each information obligation price and quantity are calculated as follows. Price (Π) consists of a tariff (W), i.e. wage costs (plus overhead, non-wage costs) for activities done internally or hourly cost for external service providers and time (T), the amount of time required to complete the activity. Wage data is normally taken from statistical sources. For external costs a national average figure is used. Quantity (Q) comprises of the size of the population (P) of businesses affected and the frequency (Φ) that the activity must be completed each year.

The basic SCM formula provides the activity costs related to a single information obligation:

$$\text{Activity Cost}_{(IO)} = \Pi \times Q = (W \times T) \times (P \times \Phi)$$

Activity costs can be defined as the costs of the administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through regulation. Each piece of legislation may impose several information obligations. The time and money that an entrepreneur spends drawing up and publishing an annual statement with the use of the services of an accountant, hired in via an accountants' office results in the external price. The time the entrepreneur spends correlating and passing on the information that the accountant needs is the internal price. If no external consultancy of professional accountant advice is needed the external price will be nil ($\pi_{external} = 0$) and the administrative activity will be attributed internally ($\Pi_{total} = \pi_{internal}$).

SCM applications

The SCM was initially developed in the Netherlands and has been subsequently applied extensively in most EU countries. The international SCM framework is set out in the Administrative Burden declaration and the International SCM Manual (IWGAD, 2004). It is to date the most widely applied methodology for measuring administrative costs (OECD, 2004). In 2003, a network of European countries was formed to consistently apply the Standard Cost Model.

The SCM can be applied both *ex ante* and *ex post*. The anticipated administrative consequences of a draft law, draft executive order or other initiative can be contained in the Regulatory Impact Assessment. Similarly, the results from an *ex-ante* measurement may, for example, form part of the overall consequence assessment of a bill's economic and administrative effects on the public sector, businesses, citizens, environment etc. The *ex-post* application of the SCM consists of the measurement of the administrative costs that arise after a regulation has come into effect and has been able to have an impact on business. In this case the SCM entails the factual administrative consequences for the businesses in respect of an implemented law, statutory instrument or other initiative. An *ex-post* measurement is carried out when an initial measurement is to be made of the overall administrative costs in an area of regulation, known as a baseline measurement (BRE, 2005). A baseline measurement, as carried out in the UK, is a statement of the overall

administrative costs that businesses have in following a current set of regulations at a given point in time.

The Netherlands: the international blue-print for cutting red tape

The institutional context

The Netherlands was the first European country to systematically measure the red tape produced by its public administrations. It is the country where the SCM was invented (Nijsen and Vellinga, 2002) and the first government to set a goal of 25 per cent reduction of the overall administrative costs (IPAL, 2004).

The practice of measuring and reducing administrative burdens imposed on business by government legislation was developed in the Netherlands in two stages.

In the mid-nineties, the Dutch government identified the need to measure and reduce the administrative burdens of businesses. At that time economic growth in the Netherlands was modest and unemployment rates were high. The Dutch economy was suffering from business sluggishness and rigidity in responding to new developments. The regulatory framework was considered to be an obstacle to the starting up of new businesses, competition, investment and innovation. In an OECD (1999) report, Dutch regulation was accused of slowing down the process of starting business, and thus reducing Dutch competitiveness.

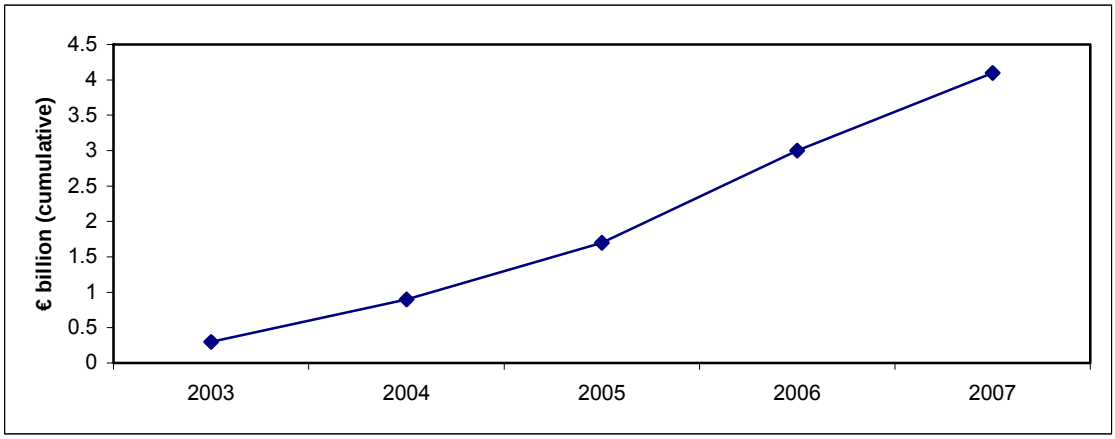
In response to the need for enhanced entrepreneurship, competition and less bureaucracy, in the year 2000 the Dutch government decided to consistently quantify administrative burdens on businesses. A high-level committee composed of industry stakeholders and under the leadership of the former CEO of Royal Shell Oil convinced the government to systematically measure the administrative burdens of regulation (Doorn and Prins, 2005). In the same year a government decree established the Dutch Advisory Board on Administrative Burdens (Actal). The creation of Actal was also a suggestion by the committee and implied an institutionalisation of the administrative burdens project. Actal consists of a government-appointed advisory body that acts as a watchdog and facilitator for the Dutch government, giving backing to the government's own objective of reducing administrative burdens on businesses. Actal independently reviews legislative proposals, appraises ministerial plans to reduce administrative burdens related to existing legislation and advises the government concerning its overall strategy to structurally achieve lower administrative burdens.

As the result of the first two years of work by Actal, in 2002 the total reduction of administrative burdens was estimated at € 1 billion - or 6 to 7 per cent less than the 1994 level (Minez, 2004). Compared to the extensive horizontal measurement efforts on large legislative areas, these total figures were rather modest. At the same time, administrative burdens increased due to new legislation (IPAL, 2005). The economic situation in the Netherlands was deteriorating: economic growth had almost come to a halt, unemployment rates were growing rapidly and after years of surpluses the state budget was in a deficit (OECD, 2003). Businesses again made an appeal to government for a firm reduction of their administrative burdens (Stevens, 2009). Hence, the reduction of administrative burdens for businesses became one of main priorities in the government's agenda.

Application of the Standard Cost Model

In the year 2006, the Cabinet presented a package of reduction measures of almost €3 billion gross (World Bank, 2006). In 2007 the package was expanded. The total reduction of administrative burdens at the end of the Cabinet period tops out at over € 4 billion net (see Figure 1).

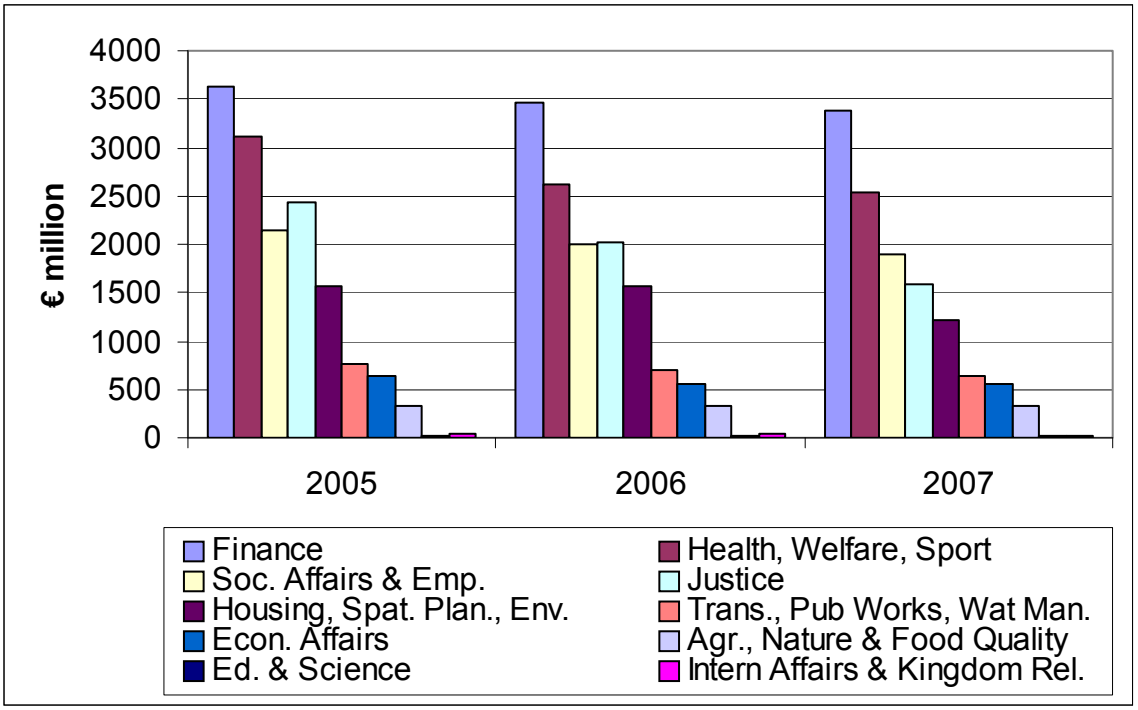
Figure 1: Net reduction by year in € billion



Source: Sevat, 2007

The application of the SCM in the Netherlands was not, however, trouble-free. It required a significant resource effort by public administrations. It involved work both internally - coordinating unit and government departments- and externally -consultants contracted for interviewing stakeholders and quantifying available data. However, the Dutch government's emphasis on the SCM and reduction of administrative burdens is justified by its hope to increase competition and give companies more scope for their business activities. Reducing administrative compliance costs means eliminating non-productive expenditures for business (den Butter and Hudson, 2009). Intuitively, money spent in fulfilling administrative tasks cannot be re-invested in profitable activities. At the macroeconomic level, diminishing administrative burdens would cause the GDP to increase in the medium term, because the time and money saved would be redeployed in more productive activities (Dutch Cabinet, 2005). According to Dutch figures (see Figure 2), the SCM does pass a cost-benefit analysis test, because the costs of carrying out the exercise are justified by the economic benefits of having reduced administrative burdens.

Figure 2: Administrative burdens imposed on business by each Ministry



Source: IPAL, 2007

The Dutch lesson

The Dutch program to measure and reduce administrative burdens originates from a specific need in the economy to release businesses from excessive regulatory burdens. The Netherlands attempted for years to damp down the expansion of red tape. In practice this meant an extended measurement and reduction exercise which is still ongoing. Commitment to this plan was shared by political actors reacting to a clear societal need and business stakeholders moved by the aspiration to improve the level of competitiveness of Dutch markets. The input by the latter is a key factor for the success of the Dutch plan to reduce administrative burdens. Involvement and participation of industry stakeholders in the early days of a regulatory reform, as it occurred in the Netherlands, are crucial. On the one hand, industry becomes aware of the programme to reduce administrative burdens and appreciates the technical effort carried out by the public administration; on the other hand, it actively participates in the measurement exercise. The SCM requires a high level of commitment by individual companies because 'normally efficient businesses' are required to provide data as to the money and time spent in information obligations (IWGAB, 2004).

The UK: much ado about £ 14 billion

The institutional context

The UK provides one of the most entrepreneurial friendly environments in the world in terms of legislation, taxation and regulation (Small Business Services, 2004). Yet existing legislation weighs on both government expenditures and the private sector. The UK also spends from 8 to 11 percent of total government spending to administer business

regulations (World Bank, 2005). Red tape reduction of 15 percent would result in a 1.2 to 1.8 percent reduction in total government expenditures. Government calculations after the one-off SCM measurement show that the administrative burdens faced by businesses due to government and EU legislation amount to approximately £ 14 billion.

In the history of British public administration, on several occasions discussions on ways to reduce red tape have been high in the political agenda. In the 1980s, Thatcher governments emphasised the importance of reducing administrative and legislative burdens. In 1986 Procedural guidelines appeared from the Enterprise and Deregulation Unit calling for departments to specify basis and objectives of proposed regulations, their positive and negative impacts on businesses, the regulatory alternatives, and their compliance costs of. The Deregulation Initiative involved both reporting and monitoring requirements. Departments had to set up internal Deregulation Units, each reporting to a Minister, which supervised regular 'forward looks' (early warning of proposed Regulations) and reviews (DTI, 1985).

In 1997 the UK Government started introducing "better regulation" initiatives aimed at reducing unnecessary and burdensome regulation. A Better Regulation Task Force was set up with the mandate of leading on such initiatives. Eight years later, The Better Regulation Task Force recommended that the government should measure and reduce the administrative burdens of existing legislation (BRTF, 2005). The Better Regulation Executive, at the time based in the Cabinet Office, coordinated the one-year exercise between 2005 and 2006.

The first body to be officially named after "better regulation" was the Better Regulation Task Force (BRTF), which was set up in 1997 and based in the Cabinet Office. The BRTF was responsible for taking the "better regulation" initiative forward and was given the express task of considering the needs of "small businesses and ordinary people". The BRTF (1998) set out the five principles of better regulation and the Compliance Cost Assessment procedure was replaced by a more developed Regulatory Impact Assessment process. In 1999, the Better Regulation Unit had been renamed the Regulatory Impact Unit at the Cabinet Office. Furthermore, each department was embedded with Regulatory Reform Ministers. In 2001, the Regulatory Reform Act guaranteed legislative support for improved regulation. Since the pilot year 2003, the Government has an agreement with the National Audit Office (NAO) to carry out an annual review of departments' RIAs. Throughout the years the NAO noticed a slight improvement in RIA practice, although quality in some cases does not reach high standards (NAO, 2007). In 2004, it was announced that the Prime Minister promised to reduce the "red tape burden" by chairing the Panel for Regulatory Accountability and the BRTF launched investigations into unnecessary regulation and 'regulatory creep'.

In 2005, the focus of Better Regulation in the UK, similarly to what happened in the EU changed from improving regulation to reducing regulatory burdens. In the same year two important reports were published: 'Regulation – Less is More' (BRTF, 2005) and the Hampton Review on Reducing Administrative Burden (HMT, 2005). The former recommended to reduce administrative burdens on business, and, suggested to adapt the Standard Cost Model in order to reduce administrative costs to businesses. The latter recommended reducing the number of regulators and that these should increase the use of risk assessments. The Hampton recommendations were endorsed by the Government 2005 budget speech, and government departments had to establish new targets for reducing the information burdens they impose on businesses. It was at that time, under strong political pressure, that the SCM project took place.

Application of the Standard Cost Model

The plan to implement the SCM involved seventeen departments which were accountable for providing information about the legislation generating excessive information obligations to business. The quantitative measurement involved 8500 interviews with businesses to understand how much time they were spending in administrative activities. Estimates of the time taken for each of the 20,000 information obligations measured were obtained for a 'normally efficient' business. In addition, 200 expert panels assessed those areas of regulation which are either particularly complex, infrequently applied, or which affect only a small number of organisations.

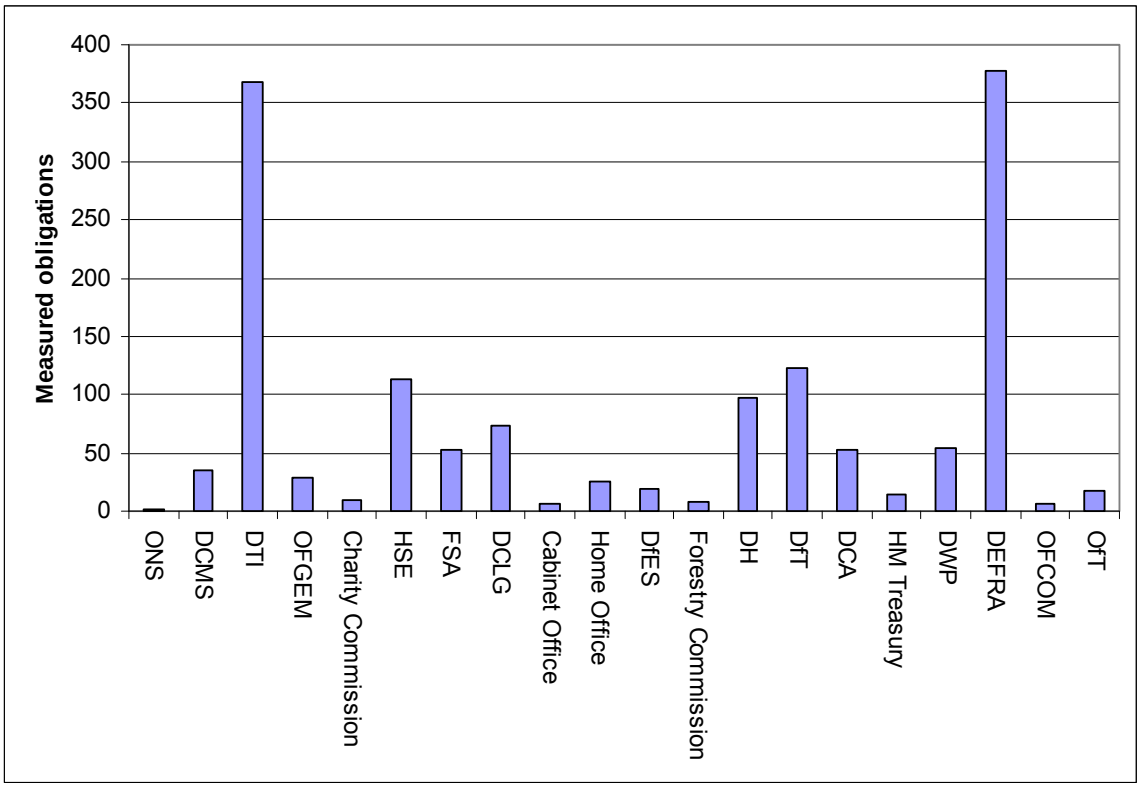
After completing the measurement exercise, individual departments published Simplification Plans. The total administrative burden was calculated to be approximately £ 14 billion, equivalent to around 1.4 percent of GDP. The Financial Services Authority and HM Revenue and Customs conducted separate, parallel exercises to measure the administrative burdens imposed by the rules and legislation for which they are responsible. The administrative burden was calculated to be approximately £ 855 million and £ 5 billion respectively.

The detailed measures in the Simplification Plans include reforms to the Companies Act which will deliver estimated administrative savings of almost £ 150 million, initiatives to deliver a simpler, faster and more efficient planning system which will save £ 124 million and measures to make compliance with health and safety requirements easier, saving over £ 300 million.

Altogether, the seventeen government departments which published Simplification Plans in 2006 launched five hundred initiatives to cut red tape. The Plans are expected to save businesses and the third sector over £ 2 billion. The government's aim is to cut administrative burdens by 25 per cent by 2010.

Indeed, a great volume of information was produced thanks to the SCM exercise. The UK measurement is particularly ambitious because it covers all business-related regulations with information obligations and data requirements. This means that all economic, social and environmental regulation produced by central government is within the scope of this implementation. The most substantial sources of information obligations were the Department of Trade and Industry and the Department of Environment Food and Rural Affairs (see Figure 3). This is not surprising if one considers that the compliance costs of environmental legislation are often considered the highest by businesses (Stirling, 1997).

Figure 3: Number of information obligations by Department-UK government



The ambitious measurement objectives were faced with some obstacles. The measurement exercise proved extremely difficult due to the lack of information and reliable data to rely on at the beginning of the exercise: departments did not know how many businesses they regulated or how much regulation they had produced to date. Given these premises, the creation of the baseline for information obligations was far from being scientifically exact.

Also, the measurement was heavily compromised by the inclusion of those costs which are not administrative burdens. The SCM is designed to measure only those administrative burdens that businesses face in order to comply with regulation. This excludes those administrative activities that businesses may maintain even if the regulations were removed. However, the measurement included also the costs of activities which business would be likely to carry out even without regulation. This problem was identified late in the measurement, and the data collected prior to this was affected by such 'business as usual' costs. To reduce the impact of 'business as usual' costs on the overall measurement, an *ad hoc* methodology was introduced. The *ad hoc* methodology addressed a reduced sample, provided that instead of reviewing the 20,000 information obligations individually, weights were attributed to some 300 information obligations.

The British lesson

In the UK there has been a strong political drive to reduce the administrative burdens on business. Former Prime Minister, Tony Blair, said in 2006:

> The exercise to produce these simplification plans has been extensive and far-reaching. It demonstrates the commitment across government and the regulators to reduce the administrative burden of regulation to the benefit of business, our public

services and the voluntary sector. These are thorough and detailed action plans that will deliver year-on-year reductions in the administrative burden of regulation.

One important reason for spending substantial resources on reducing red tape is the international reputation of a supposedly business-friendly environment in the UK and the European leadership on 'better regulation' initiatives. The British plan emphasised the potential high economic return of measuring and reducing administrative burdens. The 2005 report by the Better Regulation Task Force had already suggested that adopting the SCM in the UK might bring about "an outstanding return on investment for the UK - potentially an estimated £16 billion increase in GDP for an investment of some £ 35 million" (BRTF, 2005: 1).

Italy: making a virtue out of necessity

Institutional context

Despite being a country characterised by a high level of bureaucratisation and regulatory boundaries on business action, in Italy the political emphasis on administrative burdens and red tape has never been significantly high (Radaelli and Silva, 1998). The Italian regulatory system has been described as imposing disproportionate administrative burdens on the private sector (OECD, 2007). The structural problems of the Italian red tape slow down Italian business, which mainly consists of small and medium enterprises (OECD, 2005). The 4.5 million Italian Small and Medium Enterprises suffer particularly from this situation, as their reduced capacity is not apt to face the excessive amount of administrative burdens (Coco, 2007). Hence, a country with fragmented firms' structure therefore stands to gain potentially much more from cost reduction than one with a concentrated structure. The Italian SCM program focused only on Small and Medium Enterprises. All Italian estimates have been carried out only on single-located Small-Medium Enterprises and are based on two separate surveys for small and medium firms.

Between 2005 and 2006, the Italian government carried out a pilot measurement on 19 cases in different legislative areas, ranging from VAT to road freight transport. Given the limited expandability of the results of the pilot study, in 2006 the industry confederation convinced the government to initiate a joint initiative with the ambitious aim of reducing administrative costs for forthcoming legislation. The government's attempt to limit administrative burdens of new legislation gained political momentum between 2006 and 2007 and was backed by several ministries. Individual Ministers were bounded by an internal directive to provide information on the administrative burdens of their legislation and to integrate individual initiatives on cutting red tape with joint schemes.

The main joint action plan to reduce administrative burdens in Italy was defined under the Action Plan launched in 2007. The plan to measure and then reduce administrative burdens basically consists of adopting the instructions provided by the European Council and by the European Commission in the Communication on administrative costs (EC, 2006). The measurement aims to reduce those administrative burdens associated with information obligations -e.g. filling in forms, keeping accounting books, etc- which weigh on the private sector's economic activities. According to the European Council, the reduction of administrative burdens by 25 per cent by 2012 should consist in information obligations only. The Italian government intends to consider not only information obligations as the basis for the measurement, but also other administrative burdens. In this more holistic definition of administrative burdens fall those administrative costs related to control systems and the inefficient use of human resources.

Application of the Standard Cost Model

The Italian measurement of administrative burdens has significant points of similarity with the Dutch SCM methodology -also used in the UK. However, the focus of the Italian SCM is on assessing the net costs of administrative obligations imposed on businesses. The aim is to assess *ex ante* the administrative costs imposed by a new piece of legislation in relation to the administrative costs imposed by existing legislation.

Net costs = Costs introduced by legislation - Costs suppressed by legislation.

With the Net Administrative Cost Model, as with the SCM, an administrative action required by law, but corresponding to what an entity would normally do in the absence of any legal obligation, is not regarded as an administrative obligation. For example, a large part of accounting and auditing legislation corresponds to normal business practice. The Italian Net Administrative Cost Model differs from UK and Netherlands experiences in its focus on proposals imposing major administrative obligations and particularly burdensome acts. While the British and Dutch approaches measure and decrease administrative burdens horizontally, i.e. across a wide range of government departments and sectors; the Italian model acts vertically by focusing on fewer selected legislative areas. The reasons for following this approach originate from the fragmented structure of the Italian economy which called for a measurement centre on Small and Medium Enterprises.

The decision to measure the administrative burdens of the most onerous actions may, on paper, reduce the measurement effort. The Italian Action Plan, for instance, identifies those policy areas which will undergo the measurement. Areas for the year 2008 measurement involved environmental regulation, fire prevention, landscape and cultural goods, work safety and prevention. The overall administrative costs of legislation on Small and Medium Enterprises amounted to about € 14 billion. Should 25 per cent of these administrative burdens be eliminated by 2012, the benefit would amount to € 3.5 billion.

Table 1: Estimated total administrative burdens for the 4.5 million Italian SMEs, 0-249 employees

Legislative areas	Total yearly cost
Environment	€ 2.059.189.473
Fire prevention	€ 1.409.514.567
Landscape and cultural goods	€ 621.400.026
Work safety	€ 6.910.644.075
Social security and prevention	€ 3.029.542.069
Total cost	**€ 14.030.290.210**

Source: MOA, 2008

Cavallo et al. (2009) highlight the methodological variations of the SCM as implemented in the Italian context. They note that the different pieces of legislation on business coming out the different levels of Government (EU, national, regional and municipal) affect the way of valuing red tape.

The Italian measurement of administrative burdens presented two main problems. First, a wide variety of estimates of the burden associated with the same administrative activity suggests that the measurement might not be very precise. Second, problems arose in the sample selection process. Participation in the survey was difficult to secure in particular for micro firms- those with four or fewer employers. Small firms tend to externalise most administrative burdens to, for example, business associations.

The Italian lesson

The early attempts and pilot studies as well as the existing literature show that removing legislation or pieces of legislation is even more difficult than introducing new legislation. Italy has the potential to gain significantly from the reduction of administrative burdens. This might *prima facie* seem a paradox when considering that the Italian design to reduce administrative costs is less ambitious than the British and Dutch ones. However, by carrying out measurement activities with fewer resources, but also less hurry, more time and more attention to reducing only where it is really needed, Italy might diminish red tape more effectively than other countries. Much of the input for reducing administrative burdens derives from the EU plan (EC, 2006), rather than national initiative.

Comparison of institutional contexts and applications of the Standard Cost Model

The three national experiences on measuring administrative burdens examined in this article vary substantially among themselves. Seven concluding remarks are drawn below on the basis of a comparison of the institutional contexts, applications of the SCM (Table 2) and main lessons learned (Table 3) in the three countries. First, strong political emphasis is a *sine qua non* condition for major government plans to measure and reduce administrative burdens. In the Netherlands, the highest peaks of political consensus were reached at times of grave economic regression. Hence, society as a whole understood the need for the de-regulative interventions associated with red tape reduction. In the UK, strong political emphasis on administrative burdens was reached at a time –at least during Blair's government- when businesses were not suffering from any particularly serious economic stall. This may explain the only partial success of the SCM exercise. In Italy the need for government intervention to reduce the heavy burdens created by legislation is not accompanied by any real political emphasis, probably due to a disconnection between politics and other parts of society (OECD, 2007).

Second, the active role of business stakeholders is fundamental for any initiative to reduce red tape. In the Netherlands the proactive input by industry in the strategic planning phase was key to the successful implementation of the Standard Cost Model. In contrast, the insufficient involvement of business stakeholders in the UK meant a low level of understanding of why all the information for the measurement was required. In Italy, finally, although there was a high level of involvement by business associations in convincing government to cut red tape, there was a low participation of individual businesses in the measurement phase.

Table 2: Comparison of institutional contexts and applications of the Standard Cost Model

	Netherlands	UK	Italy
Purpose of the measurement	Progressively measuring and reducing the costs of administrative obligations imposed on businesses	Estimating and reducing administrative burden on the economy as a whole	Reducing the administrative burdens imposed on business in determinate policy areas
Scope of the measurement	All sectors of the economy	All sectors of the economy	Some sectors of the economy
Initial need for reducing administrative burdens	Reducing the administrative burdens imposed on business in determinate policy areas	Relatively low	Very high
Key players in proposing Standard Cost Model	Industry, senior civil servants and politicians	Prime Minister	EU and Ministry of Finance
Timing/ Frequency	Progressive annual review of administrative burdens; yearly measurement	One year; one-off measurement	Each year policy areas for measurement are defined; *ad hoc* measurement
Problems with measurement	Net reduction of administrative burdens affected by incoming regulation	Lack of departmental information on existing legislation; low business involvement; inclusion of other typologies of costs	Precision of measurement and population sampling
Other features	High commitment by senior civil servants	International regulatory competitiveness as a key driver	Scarce resources and focus on SMEs lead to the choice of net administrative cost model
Future	Measuring administrative burdens for public administration and citizens	Including Standard Cost Model in Impact Assessment	Enhancing number of policy areas for measurement to meet 25% targets

Third, the type of institutional setting in place for measuring administrative burdens determines the type of accomplishments of the red tape reduction initiatives. The three countries analysed in this article entail differences in terms of bodies responsible for the measurement. In the Netherlands the responsibility belongs to the Ministry of Finance whilst the control of the process is left to Actal. In the UK, the administrative burdens project was managed by the Better Regulation Executive when this was still located within the Cabinet Office. In Italy, the shared responsibility across Ministries could in theory lead to a virtuous competition between services, but so far has only brought a very heterogeneous approach to measuring administrative costs across the economy. Moreover, the institutional setting and legal frameworks count in determining the gap between the intended reduction plans – normally set at around 25 percent following the Dutch figure- and the actual de-regulative initiatives. In general, the government asks for free intervention to the Parliament in order to carry out the necessary legislative changes. In the UK, the House of Commons, for instance, approved the Legislative and Regulatory Reform Bill, which enables the government to implement measures to remove unnecessary burdens on business.

Fourth, the timing, duration and length of the measurement determine its solidity and exactness, whereas the reduction objectives are very similar throughout the three countries. In the Netherlands there has been a cumulative effort in the last few years to measure and reduce administrative burdens (see Figure 1). In the UK, the one-off measurement involved a discrete - albeit high - employment of resources by government and a set of difficulties also related to the stringent time constraints. In Italy, the measurement is being made sector by sector, with the decision on where to measure next being taken each year. This implies a less heterogeneous reduction of red tape but increases the likelihood of precision in the measurement. Otherwise, the reduction objectives envisaged in the Netherlands, UK and Italy are very similar. Here the Dutch initiative at 25 per cent of the overall administrative burdens played a crucial role not only at national level, but also at the EU level. The expected benefits originating from reduction plans do not differ significantly either, with € 4.2 billion for the 2003-2007 period in the Netherlands, £ 3 billion for the one-off measurement and reduction in the UK and €3.5 billion in Italy, should reductions act on 25 per cent of the administrative burdens on Small and Medium Enterprises take place.

Table 3: Cross-country analysis - comparison of main lessons

	Political emphasis	Role of business	Responsibility in government	Expected benefits from reduction plans	Other features	Future
Netherlands	High	Pro-active both at planning and project levels	Minister of Finance + Actal	€ 4.2 billion (period 2003-2007)	High commitment by senior civil servants	Measuring administrative burdens for public administration and citizens
UK	High	Low response rate at project level	BRE-Cabinet Office	£ 3 billion	International regulatory competitiveness as a key driver	Including Standard Cost Model in Impact Assessment
Italy	Low	Pro-active at planning level only	Across Ministers	€3.5 billion for 2008 measurement	Scarce resources and focus on SMEs lead to the choice of net admin cost model	Enhancing number of policy areas for measurement to meet 25% targets

Fifth, applications of the SCM also depend on distinct national features, which are unrepeatable in other countries and yet may be important for the success or failure of the model. One reason for the success of the measurement in the Netherlands was a media-driven discussion about the high salaries of senior board officials. These officials were thus forced to prove the importance of their job by leading an efficient measurement exercise. The former UK Prime Minister, Mr Blair, stressed the importance of the one-year measurement. Additional resources were dedicated to keeping up the reputation of the UK as international leaders in 'better regulation' and to attract investors with the claim of a regulatory environment which does not present excessive red tape. The Dutch model has been the international blueprint for measuring administrative burdens on business because considered successful. However, the context and market structure of the Netherlands differ from other countries and caution should be used when replicating the Dutch model.

Sixth, there at least three remarks about the SCM methodology which need to be discussed. The first remark regards the fact that the SCM supposes that the money saved on administrative burdens will be re-invested by industry in productive activities. Making a speculation like this implies a degree of certainty about the change in the management assets within firms, including internal shifts of human resources from administration and accounting offices to internal productive functions. Intuitively, the structure of a large size firm does not change because each year there are two forms less to fill in. Arguably, a

reduction of administrative activities does not necessarily imply the elimination of certain administrative jobs which remain fundamental in business management. The second remark is that the effort of calculating and eliminating administrative costs may prove ineffectual if the consequent overall economic improvement cannot be measured. Assuming that companies do benefit from administrative relief, how can this benefit be measured? How can the success of the SCM be measured? The GDP is dependent on too many variables to be employed as a direct indicator for the benefits coming from the suppression of administrative burdens. Moreover, the elimination of certain administrative fulfillments does not imply the opening of new production units, rendering the GDP an obsolete indicator. The third remark regards the assumption of full compliance. The SCM measurement is carried out supposing that all businesses comply with the legislation in place. However, there are studies that proved that the level of compliance in certain sectors is not more that 50 per cent of the existing regulation. Sectoral studies, for instance, state that 42 per cent of businesses do not comply with some part of food safety regulations (HSE, 2005). Only in 2003-04 UK national regulators issued 357,000 warnings or enforcement notices, and prosecuted or fined almost 11,000 businesses (HM Treasury, 2005). The assumption of full compliance simplifies the calculations but brings the measurement far from reality. The full compliance assumption may also bring about inequalities in the phase of removal of administrative burdens. If the SCM does not take into account that industry sectors have different levels of compliance, businesses within highly compliant sectors may end up disadvantaged due to this generalisation. This may occur because the overall administrative burdens of a less compliant sector will be inflated compared to reality: some costs will be attributed to legislations they do not fully comply with. The risk is to match real administrative burdens with inflated, fictional administrative burdens and take decisions based on this unfair matching. The next section provides recommendations on how to overcome these three problems.

Seventh, future initiatives aimed at reducing administrative burdens will depend on the current SCM footprints. In the Netherlands the continuous effort to measure administrative burdens on business will be reflected in future initiatives to measure and reduce administrative burdens also for citizens and the public administration itself. Administrative burdens for Dutch citizens amounted to about 100 million hours in terms of time spent and €1.25 billion in terms of out-of-pocket costs calculated for the year 2002 (Dutch Program on Reducing Administrative Burden for Citizens, 2006). The new Dutch program, which foresees a reduction by 25 percent of the administrative burdens for citizens, is destined to attract the attention of the regulatory reform community and create a sort of blueprint for other public administrations, as occurred for the Standard Cost Model. In the UK, an attempt to “normalise” the SCM into daily policy-making practice will be made by integrating it into the Impact Assessment system. In Italy, the number of policy areas covered by the net administrative cost model will increase in order to meet the 25 per cent target established by the European Union.

Conclusion

Initiatives aimed at systematically measuring and reducing red tape could potentially bring about enormous benefits to troubled economies by stimulating growth in times of recession. The three national experiences examined in this article illustrate the state of the art of the SCM. It was observed that political commitment, stakeholder involvement, adequate allocation of institutional responsibilities, prolonged trial time, and consistency with distinct national features are all key metrics for the success of the SCM.

The problems which emerged in the application of the SCM can in part be attributed to the complexity and heterogeneity of the data on administrative costs and in part lead to questioning the SCM methodology.

It was pointed out that the SCM fails to take into account the extent to which money saved on administrative burdens will be re-invested by industry in productive activities. Research is needed to understand how businesses re-invest once they are relieved from administrative burdens. A full understanding of how individual firms of different sizes react to the reduction of administrative burdens would in turn enable more targeted measurement projects and reduction plans. Such research could investigate the extent to which businesses actually re-invest; whether they move into more profitable activities and how the structure of the business changes because there are less administrative duties to comply with.

The SCM does not quantify the benefits of alleviating businesses from information obligations. In order to understand how much businesses actually lose due to administrative activities, the SCM model may include the concept of opportunity costs. In this case, opportunity costs would consist of how much each business gives up to fulfil administrative tasks. Opportunity costs provide an understanding of how much the time spent by a single business means in relative terms. Businesses are asked how they spend their resources in alternative to administrative costs. They are subsequently monitored to understand whether and how alternative investments occur. Such investigation could be carried out only on a limited sample of population. The standardisation and aggregation of opportunity costs would then give a rough estimate of the overall benefits of reducing administrative burdens.

The SCM methodology is flawed because it assumes complete compliance. Instead of calculating administrative burdens on the basis of full compliance, the government should first investigate on the actual level of compliance of businesses and hence estimate administrative costs. Alternatively, if the measurement already took place, the total value should be weighted with realistic compliance rates, estimated depending on available studies on the sector.

If SCM methodologies improve, political emphasis remains high and businesses actively participate in measurement projects, then national economies will have the opportunity to experience relief from red tape. A reduction in administrative burdens might be vital for businesses at times of economic recession.

Without the abovementioned improvements, the expected rise in financial regulation and environmental regulation over the next few years is likely to increase the amount of administrative burdens.

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