

# How Much Red Tape Is Too Much Red Tape



\*

PAVEL  
PETERKA

*The biggest barrier to the development of the Czech economy is the lack of workforce, increasing bureaucracy, poor transport infrastructure and also the increase in energy costs, increasing cost of credit in the shadow of Czech National Banks policies and the pressure on wages.*

— President of the Union of Industry and Transport Jaroslav Hanák

**T**he last time the Czech government conducted an analysis of how high and costly the bureaucratic burden was in the Czech Republic, the result was that the state required the business to meet almost 1,500 different information obligations. If this is not an example of excessive bureaucratic burden, then what is? How much regulation is too much regulation? And, by the same token, how much red tape is too much red tape?

When one neglects the actions of despotic rulers and governments that have introduced various rules and restrictions to fulfill their (often deplorable) goals, it is possible to pinpoint the beginning of regulatory theory in the works of scholars who tried to find the answer to the question that underpins so-called “market failures”. These may be divided into the following categories:

- imperfect competition, such as the existence of a monopoly;
- neglect of externalities, which are mainly related to environmental issues;
- issues of public goods;
- information asymmetry.

Needless to say, general theory works with regulation within the economy primarily because of market failures. This is because of the situation where the market allocation of economic goods is not effective.

Many pages were written about plans for reasonable market regulation. Pareto optimum regulation, which implies an improvement in the position of some market

participants without any deterioration in the position of others, is an example of such a solution. By applying this measure, the regulator reaches a higher curve of social utility. The recipe is quite simple: In its infinite wisdom, the regulator discovers market failure and its (supposed) origin. The regulator then selects the most appropriate of its tools, whether it be different forms of tax-

”

THE CENTRALLY  
PLANNED  
ECONOMY CANNOT  
WORK BECAUSE  
THE CENTRAL  
GOVERNMENT  
SIMPLY DOES NOT  
HAVE ENOUGH  
INFORMATION  
ABOUT SUPPLY  
AND DEMAND  
IN THE MARKETS  
AND THEREFORE  
HAS TO COLLAPSE



## REGULATION ALMOST ALWAYS RESOLVES IN UNINTENDED CONSEQUENCES

tion, licensing, bans, orders, customs, etc., and uses it to correct the situation. Simple, right?

Another example is that the aforementioned situation can be exacerbated by the fact that the regulators in all their wisdom tries to centrally plan the operation of the whole economy. However, the centrally planned economy cannot work because the central government simply does not have enough information about supply and demand in the markets and therefore has to collapse – as explained by F.A. Hayek in his works<sup>1</sup>. Clearly, the centrally planned economy does not win competition in popularity, also among “reasonable” leftist economists and other academics. Central planning is, therefore, opposed by the mainstream economy due to its dysfunctionality, which was proven by Nobel Prize winner James M. Buchanan<sup>2</sup>.

Let us mention examples of so-called “socialist paradises” such as Venezuela, Cuba, North Korea, and others where the central authority takes over the role of the market regulator and people suffer from a lack of basic goods such as food, toilet paper,

medication and much more. The experience with this “enlightened” practice was also present in the countries of the former Eastern Bloc, including the Czech Republic.

Nowadays, funny stories from the times of socialism, when dozens of people stood for hours in queues to buy one universal size jeans for their monthly wage, are fortunately not up to date, and therefore they shall be treated with a grain of salt. The Czechs are still paying the price for communists’ attempt to create one of the so-called “socialist paradises” between the years 1948 and 1989. As a result of socialist reforms, the Czech Republic is still being considered by some as a 2<sup>nd</sup> rate country – not only regarding economic issues.

In the developed world, regulation almost always comes with the best of intentions. The regulator is not necessarily a person who would use their power just to complicate the lives of others. The regulator, however, sometimes tries too hard to reach the set goals, using a combination of different tools. And when the forest is being cut down, the chips fly. Which is why even the smallest piece of regulation affects the entire economy and the business environment.

In *The Effects of Automobile Safety Regulation*<sup>3</sup>, Sam Peltzman proves that regulation almost always resolves in unintended consequences. He gives an example where the government decides to reduce the number of deaths in accidents on roads and therefore introduces a law that makes using safety bells mandatory. At first glance, this regulation makes sense and should lead to meeting the stated goal. Data clearly show<sup>4</sup> that

<sup>1</sup> Hayek, F. A. (1994) *The Road to Serfdom*, Chicago: University of Chicago Press.

<sup>2</sup> Buchanan, J.M. and G. Tullock (1962) *The Calculus of Consent: Logical Foundations for Constitutional Democracy*, Michigan: The University of Michigan Press.

<sup>3</sup> Peltzman, S. (1975) “The Effects of Automobile Safety Regulation”, [in]: *Journal of Political Economy*. Vol. 83(4), pp. 677–726.

<sup>4</sup> Edgar Snyder & Associates (2004) *Accident Statistics*. Available [online]: <https://www.edgarsnyder.com/statistics/>

the probability of surviving a car accident increases when using the seat belt. Alas, behavior of people on the roads is not that simple. Peltzman analyzed this phenomenon and found that the number of fatal accidents had not decreased with the introduction of mandatory seat belt use. And there is a perfectly good reason why.

The seatbelt gives the driver a signal that if they get into an accident, the consequences of the accident will be lower. The safety provided by the seatbelt encourages the drivers to drive less cautiously; hence, the increased appetite for taking risks, because of the reduced impact of a potential car accident on their health. The number of deaths of people that are transported inside the car will be lower due to security features. However, as a result of riskier driver behavior, the number of other road users who are not inside the car (such as pedestrians, cyclists and motorcyclists) will increase. The positive impact of the regulation is partly or fully offset by other factors resulting from the changed motivations of people. This mechanism is called the "Peltzman effect".

In addition to an abstract example with a safety belt, a more practical example may be given. In the context of the so-called "methanol affair" in the Czech Republic in 2012 and 2013, forty-seven Czech citizens died, dozens were hospitalized, and others suffered a life-long deterioration of sight. The problem was caused by bad liquor manufacturing that led to dangerous methanol presence inside the product.

The seriousness of the situation forced regulators to act. Negotiations took place with a result of regulation coming in two waves. The first was emergency regulation from the Czech Ministry of Healthcare that temporarily put a ban on beverages containing more than 20% alcohol, which also damaged honest producers of spirits, who were

”

GOOD INTENTIONS  
OF REGULATORS  
CAN COME  
DOWN RESULTING  
IN BANKRUPTCY  
OF A FAMILY  
COMPANY THAT  
PRODUCES  
PREMIUM SPIRITS,  
WHERE NEGLIGENCE  
OF PRODUCTION  
SAFETY  
AND POISONING  
OF CUSTOMERS  
WAS NEVER  
ON THE TABLE

not allowed to sell their products. Moreover, consumers' behavior was distorted, including moving to the black market to purchase hard alcohol, where the risk of poisoning with methanol was significantly higher. The second wave was the introduction of mandatory, incredibly expensive, security measures for the production of spirits. The entire market was affected, even honest producers that showed no evidence of posing danger or other misconduct. The regulation cost over EUR 40 million. As usual, small busi-



SIMPLICITY  
IN OPERATING  
A BUSINESS  
IS THE KEY –  
ESPECIALLY  
IN THE CZECH  
REPUBLIC,  
WHERE MILLIONS  
OF EMPLOYEES  
OWN SMALL  
AND MEDIUM-SIZE  
BUSINESSES, WHICH  
ARE THE MOST  
AFFECTED BY  
REGULATION

nesses experienced the biggest blow of the falling hammer.

An anonymous owner of a liqueur factory with a tradition dating back to the beginning of the 20<sup>th</sup> century described that his family company has survived the world war, the Nazi occupation, the communist regime, but it is very unlikely to survive this regulation. Good intentions of regulators can come down resulting in bankruptcy of a family company that produces premium spirits, where negligence of production safety and poisoning of customers was never on the table.

Leaving these few examples of how regulation backfires, it is still impossible to overlook its macroeconomic impacts on national economies. Almost every regulation means:

- a) yet another form and additional paperwork for businesses;
- b) lost time and financial costs incurred by the entrepreneur to meet the set requirements (which translates into higher end prices for consumers);
- c) growth of the bureaucracy departments responsible for overseeing compliance, reporting, etc. (at a time of critical shortage of labor on the market);
- d) negative impact on efficiency within the economy.

Economists agree<sup>5</sup> that it is impossible to introduce regulation that would immediately result in the development of a prosperous economy. It is exactly the opposite that leads to prosperity. Simplicity in operating a business is the key – especially in the Czech Republic, where millions of people own small and medium-size businesses, which are the most affected by regulation.

### **DEVELOPMENT OF REGULATORY BURDEN IN THE CZECH REPUBLIC**

The President of the Confederation of Industry and Trade, Jaroslav Hanák, together with the Department of Business Environment and Business Entrepreneurship, an anti-bureaucracy body operating within the Ministry of Industry and Trade, addressed the increasing volume of bureaucracy in the Czech Republic. They pointed to the harmfulness of the number of regulators' demands and frequent changes in the business environment. The entrepreneurs themselves, however, are most concerned [See: Figure 1]. A survey conducted by the Con-

<sup>5</sup> See, for example, Von Mises, L. (1966) *Human Action: A Treatise on Economics*, Chicago: Henry Regnery.

”

AN INTERESTING DEVELOPMENT IS THE PERCEPTION OF THE BUREAUCRACY IN THE CZECH REPUBLIC. IN THE PERIOD UNDER REVIEW, DISSATISFACTION WITH IT HAS INCREASED FROM THE LEVEL OF 3.1 IN 2011 (WHICH ITSELF IS NOT A GOOD RESULT), TO 3.5 IN 2018. THUS, IT IS EQUALLY BAD AS THE LONG-TERM OVERALL QUALITY OF LEGISLATION

federation of Industry and Trade in cooperation with the Czech National Bank attempts to identify how regulation is perceived. It

consists of a set of questions (including ones related to bureaucracy and overall quality of legislation, among others) that are being answered by enterprises on a scale from 1 to 5, where one means that the area does not cause any problems, and 5 that the category causes the most problems. After calculating the feedback, the Czech National Bank publishes the average of all responses.

Reasonable regulation and the resulting bureaucracy should be perceived as trouble-free. Yet, satisfaction with the quality of legislation and the resulting quality of the business environment did not change and oscillates around the value of 3.5 throughout the monitored period of 2011-2018. This indicator has the worst score among all indicators in the survey over the whole period. Although at first glance it may seem that the value of 3.5 out of 5 possible is a relatively good score, it should be borne in mind that the “normal” value – indicating no issues – is set not at 2.5, but at 1.

An interesting development is the perception of the bureaucracy in the Czech Republic. In the period under review, dissatisfaction with it has increased from the level of 3.1 in 2011 (which itself is not a good result), to 3.5 in 2018. Thus, it is equally bad as the long-term overall quality of legislation. A significant jump of two tenths of a percentage point in the upwards direction was recorded between the years 2017 and 2018. It was probably due to such recent developments as electronic evidence of revenues, GDPR, minimum wage, and others that will be discussed in the following sections.

If nothing else happens, the bureaucratic burden should only fall in the context of technological progress. Various obligatory reports and forms could be simplified and digitized thanks to faster internet connection and other contemporary improvements. Even filling out forms is often easier

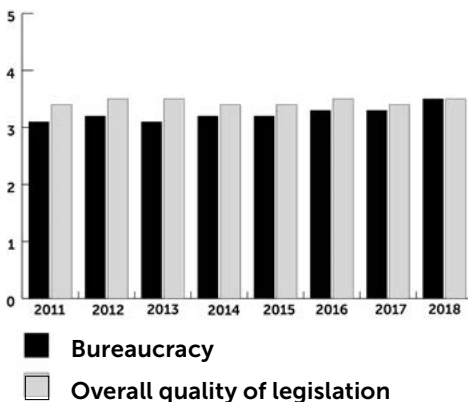


## LAUNCHING A BUSINESS IS A NIGHTMARE IN THE WHOLE OF EUROPE

thanks to digitalization. Computers and the internet simplify archiving, computing, communication, information retrieval, data transmission, etc. Compliance with the set rules should therefore be easier with every step forward that technology takes. If used properly, it would also make it easier for the bureaucrats.

It is clear that the requirements change over time, and that bureaucrats try to gather as much data as possible to create a stronger basis for more efficient decision making

Figure 1: Development of perception of regulatory burden in the Czech Republic



Source: Confederation of Industry and Trade in cooperation with the Czech National Bank

and monitoring of the fruits of their work. Or to more easily identify areas that are not yet “regulated enough”. However, with the passage of time, it is appropriate to revise the requirements for fulfilling obligations. Some of them might already be pointless or unnecessary.

A reasonable increase in bureaucracy within a sensible institutional framework may be absorbed by technological progress, which would result in a reduction of the burden even with a growing number of duties. Instead, the bureaucratic burden is increasing, and the bureaucratic apparatus continues to expand. This is mainly due to a growing number of various demands. When does this stop? How much red tape is too much red tape?

While the Estonians crushed bureaucracy and digitized the entire public administration, in the Czech Republic, the entrepreneur does not have the time to do business because of the bureaucratic requirements.

Meanwhile, no one has yet promised Czechs anything resembling a fast, functioning, user-friendly, and digitized state like current Prime Minister Andrej Babiš. In his pre-election leaflet, he starts with a situation that many people in the Czech Republic know far too well: “I thought it was a joke, you need a new ID and a driver license, you have to stand in two queues because it is not possible to do it all at once”. Even though his movement, ANO 2011, has been in power since 2014, Minister of Transport Dan Ťok has been in charge of issuing driver’s licenses for years, and Babiš himself has been overseeing the tax system for years as a finance minister, nothing has changed. Merging state agendas does not take place, and the average citizen still has to take a day off at work to stand in queues at different government bureaus. The long-awaited project called Citizen’s Internet Portal has

a minimum of users and Babiš's chief advocate for the digitization of state, Deputy Minister of Industry Ondřej Malý, was dismissed in November 2018. The agenda for the digitalization of the state has not moved forward since.

### **RED-TAPE-ENHANCING REGULATORY CHANGES IN THE CZECH REPUBLIC**

Electronic Evidence of Revenues (EET), often referred to as online revenues registration, is a way of tracking revenues. Data about each merchant transaction are sent online to the state administration. In 2016, the EET system was introduced in the Czech Republic. The Ministry of Finance promised a smooth start of the control reports, but it was not the case for many entrepreneurs.

One fifth of all entrepreneurs reported encountering some problems. EET hit small businesses and traders especially hard. It was a new duty that again increased the mandatory administration up to tens of hours annually. The cost of introducing EET for small business owners amounted to approximately EUR 400. The figure went above thousands of euros for bigger companies.

The Finance Minister originally estimated the annual contribution of this measure to the collection of VAT and the collection of income tax to amount to as much as EUR 473 million. According to an updated estimate, its expected contribution is as high as EUR 450 million. According to the Ministry of Finance, the promised results of collecting an extra EUR 473 million were achieved.

However, the method that has been used to make such a conclusion is controversial, according to experts from Czech Supreme Audit Office. The Ministry of Finance operates with the assumption that the introduction of the EET has a positive effect on VAT collection. This thesis is not further developed by

the Ministry, and it does not prove or justify it. The EET estimates work with an arbitrarily determined autonomous VAT revenue growth factor, and the rest is declared as the impact of the EET. When we expand the government's methodology for collecting VAT across the economy, the impact of EET would be reflected even in sectors where the EET was not introduced, as an increase of EUR 227 million, which is very unlikely.

Initial costs of introducing such a system start at EUR 400 and grow with the size of the business. Next to one-off purchase costs, there are additional operating expenditures. Every entrepreneur operating in catering or accommodation services, wholesale, retail, transportation, agriculture, or selected crafts pays at least EUR 20 in operating costs. The number may seem low and the actual costs are likely to be significantly higher, but let us see what comes out of this undervalued amount. If the entrepreneur pays EUR 20 per month, it amounts to an annual expenditure of EUR 240. There are about 600,000 entrepreneurs who are required to use the EET, so a simple multiplication shows that every year, entrepreneurs spend at least EUR 144 million. Millions that could have been used more efficiently.

General Data Protection Regulation (GDPR), a regulation of the European Union published in the *Official Journal of the European Union* on April 27, 2016, concerns public institutions as well as companies and companies dealing with the personal data of their customers or employees. The introduction of this regulation on personal data protection will cost Czech companies around EUR 1 billion; most companies, however, will pay up to EUR 2,000<sup>6</sup>. By contrast, more than

<sup>6</sup> Czech Chamber of Commerce (2018) *Účet za GDPR? Podnikatele nařízení vyjde na 25 miliard korun*. Available [online]: [https://www.komora.cz/tiskova\\_zprava/ucet-za-gdpr-podnikatele-narizeni-vyjde-na-25-miliard-korun/](https://www.komora.cz/tiskova_zprava/ucet-za-gdpr-podnikatele-narizeni-vyjde-na-25-miliard-korun/) [in Czech]



a fifth of large companies with more than 250 employees has spent over EUR 20,000 on these measures, according to Chamber of Commerce of the Czech Republic<sup>7</sup>.

### SIZE AND DEVELOPMENT OF ADMINISTRATION IN THE CZECH REPUBLIC

Almost one million people in the Czech Republic work for the state, state-owned enterprises, local governments and their organizations, which constitutes approximately one quarter of all employees in the Czech Republic. That many people worked last year for the state, state-owned companies, local governments, and their organizations, such as hospitals, schools, or cultural institutions<sup>8</sup>.

Most of the people who work for the state are paid directly from the central budget, that is, by the state. Last year, these employees accounted for almost 445,000 employees. Almost 30,000 more than five years ago. In 2019, according to an official governmental report, the number will increase by 16,300<sup>9</sup>. Their salaries will total to more than EUR 7.5 billion, which is 2 billion more than in 2013. In other words, after the decline in the public administration's size in the years of economic recession (2008-2010), when the number of people working for the state due to the budget cuts was falling, the Czech Republic is returning to the rising trend.

<sup>7</sup> Ibid.

<sup>8</sup> Němec, J. (2017) *Provoz státu je stále dražší. Za pět let narostl počet státních zaměstnanců o 30 tisíc a náklady na jejich platy o 50 miliard*. Available [online]: <https://ekonomi.hned.cz/c1-66042180-urednici-a-ti-dalsi-pro-erar-pracuje-milion-lidi> [in Czech]

<sup>9</sup> ČTK (2018) *Počet státních zaměstnanců dal roste, stát dá příští rok na jejich platy 210 miliard*. Available [online]: <https://www.e15.cz/byznys/finance-a-bankovnictvi/pocet-statnich-zamestnancu-dal-rose-stat-da-pris-tirok-na-jejich-platy-210-miliard-1352581> [in Czech]



DUE TO BAD LEGISLATION, THE REAL ESTATE PRICE IS 10% HIGHER THAN IT WOULD BE WITH A PROPER LEGISLATIVE FRAMEWORK

What do all these people working for the state, state-owned enterprises, local governments and their organizations do? The largest groups of employees are the teachers and other staff in the education system. In total, there were over 227,000 such employees last year, accounting for half of the people paid from the central budget. The second largest group are the policemen, customs officers, and prison staff, who in 2018 accounted for over 54,000 in the Czech Republic. Third place was occupied by professional soldiers: In 2018, the Czech army had about 24,000 soldiers. For comparison, the General Finance Directorate employed 16,300 tax collectors<sup>10</sup>.

The fact there are so many bureaucrats in the Czech Republic was also emphasized by Prime Minister Babiš, who addressed the issue at a press conference held on February 2, 2019, claiming that bureaucracy needs to

<sup>10</sup> General Finance Directorate (2018) *Annual Report: 2017*. Available [online]: [https://www.financnisprava.cz/assets/cs/prilohy/fs-vysledky-cinnosti/VZ\\_FS\\_2017.pdf](https://www.financnisprava.cz/assets/cs/prilohy/fs-vysledky-cinnosti/VZ_FS_2017.pdf)

be reduced and digitalized<sup>11</sup>. At the beginning of February 2019, together with Finance Minister Alena Schiller, the prime minister said that it is necessary to start with budget cuts and reduce the number of state employees by 10%. Yet, neither of them has set any deadline<sup>12</sup>.

What remains unclear is whether the high number of bureaucrats is the reason behind the inefficient Czech legislation, or the other way around. It may well be a combination of both. For entrepreneurs, however, increasing number of bureaucrats is a symptom of inefficient systems that makes operating their businesses much more challenging..

## THE CZECH REPUBLIC IN CONTEXT

The Czech Republic holds 35<sup>th</sup> place in terms of the ease of doing business as estimated by the Doing Business Index. This section shows the breakdown of chosen indicators, such as ease of starting a business, getting a construction permits, getting electricity, paying taxes, etc. These internationally comparable factors indicate the overall quality of the business environment in different countries, thus allowing to compare business environment in the Czech Republic with that in neighboring and other countries in the world.

## DOING BUSINESS INDEX

According to the *Doing Business Index 2019*, the Czech Republic is the second worst country in terms of ease of doing business in the group of its neighbors (Germany, Austria, Poland, and Slovakia) [See Table 1]. None of the rankings mentioned in Table 1 displayed the Czech Republic as the best.

All selected countries are doing “pretty well”. They all, except Slovakia, got into the top forty of the examined states. Slovakia took 42<sup>nd</sup> place. However, as visible from the data, launching a business is a nightmare in the whole of Europe. Legally, it requires a lot of paperwork and visits to state offices. The *Doing Business Index* reveals that it is a big issue in all abovementioned countries.

The Czech Republic is not the best in any category, at the same time it ranked the worst in two categories within the region – obtaining construction permits and contract enforceability. When it comes to the former, the Czech Republic ranks 156<sup>th</sup> in the world. Only thirty-four countries are worse and most of them are developing countries, or ones affected by war. This position in the ranking really shows the true nature of the situation of bureaucracy in the Czech Republic. Building an office where employees can work or a small warehouse to store produced goods may appear to be a Sisyphean task. It takes a lot of time and resources, thus doing business becomes very difficult from the start.

It takes almost ten months to get a permit for building a production hall, over five years of waiting and handling for a block of flats. The length of the process in the Czech Republic is one of the longest in Europe. This is reflected in both a lower volume of investment and more expensive housing. Due to bad legislation, the real estate price is 10% higher than it would be with a proper legislative framework, according to Ekospol chief Evžen Koreček<sup>13</sup>. The first problem is the huge number of agents who can affect the proceedings. At present, the forty-six authorities concerned can express their

<sup>11</sup> |Dnes (2018) *Musíme šetřit, vyhlásili Babiš a Schillerová. Navrhli propouštění úředníků*. Available at: [https://www.idnes.cz/zpravy/domaci/schillerova-rozpocet-2020-statni-zamestnanci.A190201\\_161738\\_domaci\\_kop](https://www.idnes.cz/zpravy/domaci/schillerova-rozpocet-2020-statni-zamestnanci.A190201_161738_domaci_kop) [in Czech]

<sup>12</sup> Ibid.

<sup>13</sup> Němec, J. (2017) *Provoz státu je stále dražší. Za pět let narostl počet státních zaměstnanců o 30 tisíc a náklady na jejich platy o 50 miliard*. Available [online]: <https://ekonom.ihned.cz/c1-66042180-urednici-a-ti-dalsi-pro-erar-pracuje-milion-lidi> [in Czech]

Table 1: Comparison of *Doing Business Index* indicators for the Czech Republic, Germany, Austria, Poland, and Slovakia

Economy	Global Rank	Starting a Business	Construction Permits	Getting Electricity	Registering Property	Getting Credit	Paying Taxes	Enforcing Contracts
GER	24	114	24	5	78	44	43	26
AUT	26	118	42	28	32	85	40	10
PL	33	121	40	58	41	32	69	53
CZE	35	115	156	10	33	44	45	99
SVK	42	127	143	47	9	44	48	47

Source: *Doing Business Index 2019*

views on the process of obtaining a construction permit. If everyone has thirty days to respond, it is not surprising that the time it takes to get the permit is one of the longest in the world. No wonder that the authors of the *Doing Business Index* are shaking their heads in disbelief.

Similarly, Czech citizens are familiar with a cautionary tale in the area of enforceability of contracts (just to remind you, the Czech Republic was ranked as 99<sup>th</sup> out of the 190 countries surveyed). This fact also reflects the already mentioned poor opinion on the quality of the legislative environment in the country. Next to neighboring Austria sitting in 10<sup>th</sup> place, the Czech Republic looks like a representative of the wild east.

To summarize, obtaining construction permits and contract enforceability are clearly two categories where it is necessary for all public authorities (from ministries to courts) to improve their legal framework and efficiency.

### **BUREAUCRACY INDEX**

Liberální Institut, in cooperation with the Slovak INESS, calculated how much bureaucracy costs the average small Czech com-

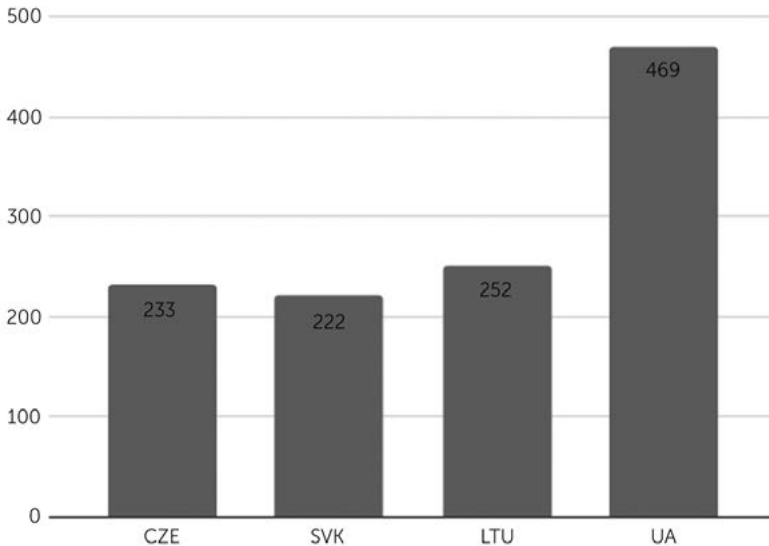
pany, thus creating the *Bureaucracy Index*<sup>14</sup>. This is an alternative view of reality regarding small entities, for which bureaucracy is often much more burdensome than for large multinationals<sup>15</sup>. The authors focused on all the familiar duties that a typical small Czech company has in one year's operation.

In the Czech Republic, an average small company spends 233 hours per year on paperwork, which translates in terms of an average wage to more than EUR 1,700. Needless to say, the state agenda costs businesses much more on compulsory levies, income tax, value added tax, etc. Among the four countries where the bureaucracy index is measured, the Czech Republic holds the 2<sup>nd</sup> place, after Slovakia, where companies spend 222 hours on paperwork, followed by Lithuania (with 252 hours), and Ukraine (469 hours) [See Figure 2].

<sup>14</sup> In the Czech Republic, the Ministry of Industry and Trade helped with the development of the Index, as it appreciated the possibilities of comparing the results of their sectoral measurement with the microeconomic model.

<sup>15</sup> The Bureaucracy Index uses a so-called "market test" in the methodology. This means that if the state imposes an obligation on the entrepreneur, which they would very likely perform even without the existence of the regulation, this activity is not considered bureaucracy.

Figure 2: Hours dedicated in a year to bureaucracy by small businesses in selected European countries (data for 2018)



Source: Peterka, P. (2018) *Index byrokracie 2018: V České republice stráví průměrná malá firma papírováním 233 hodin ročně*, [in]: libinst.cz. Available [online]: <https://libinst.cz/index-byrokracie-2018-v-ceske-republice-stravi-prumerna-mala-firma-papirovanim-233-hodin-rocne/> [in Czech]

Although the Czech Republic is not doing the worst when compared to its neighbors, it is frightening that in a relatively small company, one person has to devote approximately five weeks just to finish the paperwork required by the state. Now, at a time of economic growth, we can get our hands on it. But worse times will come, and companies will need every resource to stay on the market. According to Director of Liberální Institutu Martin Pánek, in order to address this challenge, the Czech government should adopt a courageous agenda to lower bureaucracy in our economy as soon as possible.

### RECOMMENDATIONS

The business environment in the Czech Republic is far from perfect. Suggestions for improvement could fill up a national library. The recommendations listed below are selected on the basis of the weakest links in the

Czech system, and they can be understood as important tasks for the following years.

#### 1) Digitization and adherence to the “once-only principle”

The digitization of public administration and the possibility of solving requirements online would make life easier and save count-



THE BUSINESS ENVIRONMENT IN THE CZECH REPUBLIC IS FAR FROM PERFECT

less mileage for many entrepreneurs. At the same time, the “once-only principle” – according to which, the entrepreneur fills the information required by public authorities (e.g. Trade Licensing Office, Tax Offices) only once and the relevant authorities share the data among themselves – should be in place. This principle would reduce bureaucratic burden and would improve the ranking of the Czech Republic in the *Doing Business Index*.

### **2) “1 in 3 out”**

Following the example of the United Kingdom and other countries, a mandatory “1 in 3 out principle” shall be introduced. It assumes that with each new piece of regulation or a duty, three have to be removed. The principle helps get rid of the weeds in the business environment. Logically, the unnecessary business obligations should be phased out first. Introducing this principle would similarly, as in the case of the 1<sup>st</sup> recommendation, reduce the bureaucratic burden. Especially in the “Paying Taxes” and “Starting a Business” categories.

### **3) Proper use of RIA**

The RIA (Regulatory Impact Assessment) is an integral part of the legislative process in the Czech Republic. Good RIA helps to improve governance efficiency, contributes to the performance of the economy, and strengthens the importance of consultations on prepared legislative and conceptual materials with the broad public. However, even though RIA is implemented in the Czech environment, it is not used properly. It is not being taken into account when certain regulations are evaluated and is considered by some as unnecessary work that keeps MPs from their duties. RIA is usually made to assess the original proposal; it is, however, not adjusted should any changes be introduced to the initial framework. Clearly, the importance of RIA in this regard is underestimated. It is, therefore, crucial that RIA account for

every such modification and thus gives relevant feedback to the decision makers, who can then evaluate whether the planned/employed measures are justified.

### **4) Simplifying the process of obtaining construction permit**

The entrepreneurs consider making fundamental changes to the building law crucial because it is a major barrier in the growth of further investment. According to the Chamber of Commerce of the Czech Republic, a single authorization procedure should be introduced to accelerate the process. This new procedure would merge all the necessary procedures (territorial, construction, nature protection and others) resulting in one permit for construction. The Chamber also proposes precise deadlines for the bureaucrats and other authorities. They are too benevolent right now. Simplifying the process would be a huge relief for businesses in the Czech Republic and would also help move the country up in the *Doing Business* ranking (both in terms of its overall position and as regards construction permits).

### **5) The amendments will enter into force in one day**

Introducing a unified date of efficiency of legislation impacting the business environment would greatly help entrepreneurs to prepare for planned changes. A growing number of demands imposed on entrepreneurs by public authorities goes hand-in-hand with the necessity to introduce this principle. There would be a great decrease in the confusion regarding changing legal framework.

### **6) Simplifying the employment of foreigners in the Czech Republic**

The problem of labor shortage of 313,000 missing workers, described at the beginning of this article, is one of the biggest obstacles for the economy in the Czech Republic. Making it easier for workers from all around

the globe to come work to the Czech Republic should be one of the priorities.

It becomes clear that implementing the abovementioned recommendations would significantly improve business environment in the Czech Republic. As a result, these improvements might lead to an increased willingness of entrepreneurs, who constitute the backbone of the Czech economy, to start a business. In the countries where entrepreneurs must meet sometimes as many as 1,500 different requirements with regards to providing necessary information to the state, such a willingness is likely to be at a much lower level. After all, who would risk doing business in such an unwelcome environment? Thus, the proposed set of recommendations is the key to improving the current situation in the Czech Republic, and improvement is much needed. ●



\*

PAVEL  
PETERKA

---

Analyst at the Centre for Economic and Market Analyses (CETA), where he focuses on the issues of regulation, waste management, sharing economy, and taxation on fuel. A PhD student at Jan Evangelista Purkyně University with specialization in Applied Economics

