

Europe's TechReg Paradox:



Deregulating with One Hand, Re-regulating with the Other

Diego Sánchez de la Cruz

Research Coordinator at Instituto Juan de Mariana

9 July 2025

Summary

- Europe aspires to lead in emerging technologies; yet, it is falling behind the US and Asia, largely due to overregulation and risk-averse regulatory culture. EU markets are often described as 'sclerotic', burdened by complex, frequently changing rules and a precautionary mindset that discourages innovation. Mario Draghi's 2024 report confirms that the EU missed the digital revolution, largely due to a weak tech sector marked by low productivity.
- In the past decade, the EU has introduced nearly 100 tech-related laws and over 270 digital regulation bodies, existing both at the continental, national and even local level. While initiatives such as the General Data Protection Regulation (GDPR) and the AI Act aim to safeguard citizens, they also impose heavy compliance burdens that only large firms can afford. This puts startups at a disadvantage, reduces innovation, and reinforces Big Tech dominance. The GDPR led to fewer app launches, decreased web tracking, and resulted in a decline in venture capital deals. The AI Act is expected to introduce even greater complexity.
- Despite commitments to reducing red tape, Brussels continues to introduce new legislation, such as the Digital Fairness Act and the Digital Networks Act, further complicating the regulatory environment. The result is incoherence, as deregulatory efforts are repeatedly undermined by simultaneous waves of new rules.
- International evidence shows that only comprehensive, cross-cutting deregulation yields results. Canadian provinces, for instance, drastically reduced red tape and saw strong economic growth. Europe must adopt a similar approach: halt the layering of new tech laws, evaluate and simplify existing rules, and implement smarter regulatory tools, such as sunset clauses and regulatory sandboxes.
- To restore its leadership in innovation, the EU must demonstrate clear political will, shifting from a precautionary pessimism to bold, pro-growth reforms. This means prioritising quality over quantity in regulations and unlocking its entrepreneurial potential.

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About the author

Diego Sánchez de la Cruz is Chief Executive Officer of the think tank Foro Regulación Inteligente and Associate Researcher at the Instituto de Estudios Económicos (affiliated with CEOE). He is also the Research Coordinator of the Juan de Mariana Institute. As an economic analyst, he contributes to Spanish media including Libertad Digital, Libre Mercado, and Actualidad Económica in print, esRadio, and television programmes on Antena 3 and Movistar+. He serves as Associate Professor of Economics and Communication at Camilo José Cela University and has authored three books, with his most recent being 'Liberalismo a la madrileña' (Deusto, 2021).

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An innovation illusion

Europe frequently asserts its ambitions of securing ‘technological sovereignty’ and demonstrating leadership in advanced fields such as AI and quantum computing. However, both data and testimony from European innovators tell a more sobering story. The EU’s digital economy significantly underperforms that of the US. Between 2000 and 2019, information and communication technology (ICT) services contributed six times more to value-added growth in the US than in the EU (Guinea and Sharma 2025). Europe has relatively few tech giants, lags behind in funding and R&D, and has seen many promising ‘unicorns’ relocate to Silicon Valley.

Why is Europe falling behind? There is a growing consensus that the main reasons concern self-imposed hurdles, including excessive regulation, fragmentation, and a risk-averse mindset. In *The Innovation Illusion* (2016), Fredrik Erixon and Björn Weigel argue that Western - particularly European - societies have become increasingly rigid, impeding the commercialisation of new ideas. Although largely overlooked at the time, their concerns now seem increasingly justified.

The authors identified three key obstacles to EU innovation. Chief among them is a regulatory environment marked by constant change and complexity, closely followed by the ‘precautionary principle’, which holds that products must be proven safe before they can be adopted. In practice, this discourages risk-taking and chokes innovation.

Europe often regulates based on worst-case scenarios, inadvertently stifling best-case outcomes such as the emergence of breakthrough innovations. Though overlooked in 2016, these insights are echoed in Mario Draghi’s 2024 report on the future of European competitiveness. Draghi states plainly that the EU’s regulatory stance towards tech companies hampers innovation, citing ‘around 100 tech-focused laws and over 270 regulators’ across member states. This ‘complex patchwork’ explains the chief problems within Europe’s tech sector. Larger, often non-EU firms can absorb compliance costs, while young innovative tech companies may choose not to operate in the EU at all (Draghi 2024). Of the 147 unicorns founded in the EU, 40 have relocated abroad, mostly to the US.

In short, European innovators face regulatory burdens that their American and Chinese counterparts largely escape. Enrico Letta’s study on the EU’s economy highlighted similar points (Letta 2024).

GDPR and AI Act: Tech’s tipping point

The General Data Protection Regulation (GDPR), implemented in 2018, imposes strict data collection and privacy obligations on businesses. It can levy fines of up to 4% of the company’s global turnover and has set new global standards through what has come to be known as the ‘Brussels effect’. However, evidence suggests that it has generated significant economic and innovation costs, particularly for startups. Web traffic and data usage in Europe declined by 10–15% due to the consent barriers created by the GDPR, while the region also lags behind the US in data storage and data-driven computation (Aridor et al. 2023; Johnson et al. 2024).¹

The GDPR’s high compliance costs, including those associated with legal reviews, dedicated engineers for consent systems, and full-time data protection officers, have hit smaller firms the hardest. In contrast, large tech companies can afford these costs, and they may even benefit from the regulation as it can help entrench their market dominance. This leads to increased market concentration, particularly in online advertising, where companies like Google gained market share

¹ Is GDPR undermining innovation in Europe? *Silicon Continent*, 11 Sept 2024 (<https://www.siliconcontinent.com/p/is-gdpr-undermining-innovation-in>).

while smaller players struggled. The Draghi report warns that this environment discourages startups and fragments the single market due to inconsistent national implementation and enforcement of GDPR, a problem often referred to as ‘gold-plating’.

Empirical studies reinforce the GDPR’s negative impact on innovation. A National Bureau of Economic Research (NBER) study found that the GDPR led to the removal of a third of apps from Google Play, along with a 50% decline in new app entries following its implementation (Janßen et al. 2022). From 2016 to 2021, venture capital deals in Europe declined by 26% relative to the US, particularly affecting young, data-intensive startups, which form the very businesses powering AI and digital growth (Jia et al. 2021). GDPR has clearly dampened the ecosystem needed to transform ideas into viable companies.

- This pattern may recur with the forthcoming EU Artificial Intelligence Act. Aimed at promoting ‘trustworthy AI’, the Act mandates extensive obligations for ‘high-risk’ systems, such as credit scoring and transport. These requirements include bias testing, documentation, human oversight, conformity assessments, and EU registration. Some proposed amendments extend these rules to ‘general purpose’ AI models, such as ChatGPT-4, requiring full documentation, copyright disclosure, and incident reporting. Critics argue that such demands could slow AI development and divert new investment in this sector away from the European continent. Moreover, the Act’s implementation will be handled by over 30 national agencies, which will likely lead to fragmented enforcement, despite the planned establishment of a new EU AI Office. This setup resembles the GDPR’s uneven application and exacerbates uncertainty.

Unless addressed, the AI Act could repeat the same errors as the GDPR, creating another complex, risk-averse framework that stifles rather than enables innovation. This is why both the GDPR and the proposed AI Act signal a tipping point in technology regulation, sparking widespread debate about the costs of overregulation for the EU economy. While both rules seek to set global standards in privacy and AI ethics, they also have unintended consequences, such as placing heavy compliance burdens on businesses, particularly startups. This impact has catalysed an essential conversation about the need to streamline and scale back regulatory obligations. Policymakers are now confronting the trade-offs between precaution and innovation more openly than ever.

Regulatory incoherence

In response to growing concerns that overregulation is hindering growth, European leaders have recently adopted a more reform-oriented rhetoric. In her 2023 State of the Union address, Ursula von der Leyen pledged to cut reporting requirements by 25%. She tasked the European Commission with identifying burdens to eliminate and appointed Mario Draghi to lead the formulation of a competitiveness strategy². In early 2025, the Commission introduced an ‘Omnibus Proposal’ to simplify laws, particularly in areas such as sustainability reporting, with the aim of saving businesses billions in compliance costs.

On the surface, Brussels appears ready to address Europe’s red tape problem.³ In practice, however, this deregulatory narrative is undermined by the steady expansion of new digital regulations. During its 2019–2024 term, the von der Leyen Commission passed several new tech

² ‘State of the Union Address 2023 – Ursula von der Leyen’, European Commission, 13 September 2023 (https://enlargement.ec.europa.eu/news/2023-state-union-address-president-von-der-leyen-2023-09-13_en).

³ ‘Commission proposes to cut red tape and simplify EU rules’, European Commission, 14 November 2024 (https://commission.europa.eu/news-and-media/news/commission-proposes-cut-red-tape-and-simplify-business-environment-2025-02-26_en).

laws, including the Digital Markets Act (DMA), Digital Services Act (DSA), and Data Governance Act. In addition, the AI Act was also announced during this period. Rather than slowing down, the Commission is now working on additional proposals, such as the Digital Fairness Act (DFA) and the Digital Networks Act (DNA), both of which further extend the regulatory burden.

The DFA, expected in 2026, seeks to ban 'dark patterns' in online design, regulate targeted advertising and personalisation, and impose new rules on influencer marketing. While intended to protect consumers, many industry players argue that these issues could be addressed through better enforcement of existing laws. Adding yet another layer of compliance would only increase complexity for businesses without improving outcomes.

The DNA represents a significant overhaul of telecom policy. One of its central ideas is the 'fair share' proposal, which would require large internet platforms, such as Google and Netflix, to subsidise the costs of telecom infrastructure. While telcos support the proposal, digital rights advocates warn that it may violate net neutrality and act as a *de facto* internet tax. Although approval of the final proposal was postponed in 2024, it remains a priority for the current von der Leyen II Commission.

This contradictory mix of policies sends mixed signals. On the one hand, the EU acknowledges the need to reduce bureaucracy. On the other, it continues to introduce specialised rules that increase compliance burdens. As a result, businesses find themselves trapped between promises of simplification and the ongoing addition of new regulatory obligations.

This inconsistency reflects a deep leadership gap. Different EU agencies pursue separate regulatory agendas, whether focused on AI, consumer protection, or telecoms, with little coordination. A startup might benefit from reduced paperwork in one area, only to be overwhelmed by new mandates in another. This fragmented approach erodes the EU's competitiveness. As Draghi warned, for every rule the EU repeals, it seems to propose two more, which puts the entire deregulatory effort at risk of death by self-sabotage.

Ultimately, Europe needs a more coherent approach to regulation. Streamlining existing rules is insufficient if they are continually replaced with new ones. Without unified leadership and outcome-based policy goals, the EU may continue to discourage innovation and investment, exactly when it needs them most to remain globally competitive.

The need for a 360° view in regulatory policy

Europe's push for regulatory reform can draw practical lessons from Canada's success. In 2001, British Columbia (BC) faced stagnant growth and pledged to cut one-third of all its regulatory requirements. The government kept that promise, eliminating 37% of its 383,000 rules within just three years. It achieved this by consolidating licenses, eliminating outdated mandates, and establishing a dedicated Ministry of Deregulation, which oversaw a broad and effective review (Jones 2015). This was not just trimming; it was a deep overhaul that transformed the province's business environment.

The results were remarkable. BC moved from economic underperformance to leading national growth. Its GDP rose above the Canadian average, business incorporations increased by over 60%, and bankruptcies dropped by more than half. To sustain this momentum, the province adopted a 'one-in, one-out' rule, which later evolved into 'one-in, two-out', all while publicly tracking regulatory counts. By 2019, BC had halved its total regulations compared to 2001 and was a growth leader in Canada.

Alberta followed a similar model beginning in 2019. It created a Ministry of Red Tape Reduction and eliminated over 209,000 regulatory requirements by 2024, cutting one-third of its regulatory burden ahead of schedule (Government of Alberta 2024).

As in BC, Alberta's success came from a whole-of-government approach that focused on reducing paperwork, permits, and outdated rules across sectors. Meaningful deregulation is both possible and sustainable, provided it is driven by strong leadership and clear accountability. In contrast, Europe's fragmented approach is highly inconsistent, trimming some rules while layering on new ones such as the AI Act or ESG reporting mandates. The EU risks falling into a regulatory cycle that frustrates businesses and weakens competitiveness. While Brussels has some promising 'weapons' available in its 'arsenal' (such as the Regulatory Fitness and Performance Programme [REFIT] and the 'one-in, one-out' principle), these remain underutilised in the absence of high-level political support.⁴

Drawing on Canada's experience, there are at least five key takeaways for EU policymakers seeking to improve the regulatory climate:

- *Leadership is non-negotiable:* BC and Alberta had premiers who prioritised deregulation, empowered ministers, and demanded delivery. European policymakers must do the same.
- *Measure what matters:* Canada set clear, numerical targets and publicly tracked progress. Europe should establish comparable metrics, such as reducing the overall regulatory cost burden by an ambitious and well-defined percentage.
- *Be comprehensive:* Canada tackled regulation across all sectors. Europe should move beyond piecemeal reforms and instead audit the full EU regulatory framework, removing the most burdensome 20% of rules.
- *Make it cultural:* Institutionalise review mechanisms, use sunset clauses, and require offsetting simplifications for new rules. Present the agenda as smarter governance, not laissez-faire.
- *Distinguish essential regulation from luxury beliefs:* During periods of weak growth, some non-essential regulations become economically unsustainable. Canada maintained its safety and environmental standards while eliminating excessive red tape. Europe can do the same by avoiding economically unsustainable 'luxury beliefs' and adopting a more pragmatic and results-driven mindset.

Toward a coherent, pro-innovation agenda

Europe faces a pivotal decision: it can continue introducing tech regulations with minimal simplification, risking stagnation, or it can commit to a bold, pro-innovation shift that prioritises regulatory quality and entrepreneurial freedom. The second path requires more than rhetoric. It demands a coherent strategy and structural change in how the EU approaches rulemaking.

This would involve establishing a high-level mandate for growth and innovation, potentially through an 'innovation charter'. This would ensure that every new law is subject to an innovation impact assessment, as is already done for climate regulations. Equally importantly, the EU should pause its current pipeline of digital rules, including the DFA and DNA, and evaluate how frameworks such as the GDPR, DSA, and DMA are performing in practice. A regulatory pause would allow space for adjustment and evaluation before further obligations are introduced (CEPOS 2023).

Rather than continuing with one-size-fits-all approach, the EU should expand the use of flexible tools such as regulatory sandboxes. These have proven successful in the UK fintech space, allowing

⁴ 'State of the Union Address 2023 – Ursula von der Leyen', European Commission, 13 September 2023 (https://enlargement.ec.europa.eu/news/2023-state-union-address-president-von-der-leyen-2023-09-13_en).

startups to test innovations without complying with all regulations from day one. Greater harmonisation is also essential. Fragmentation caused by national 'gold-plating' can also weaken the Single Market. A stronger EU-level enforcement structure, combined with efforts to eliminate overlapping national rules, will improve consistency and scale.

Institutionalising deregulation is also critical. Establishing tools such as a 'one-in, two-out' rule, mandatory sunset clauses for major laws, and an independent Competitiveness Council to audit existing regulatory burdens could instill discipline in the EU's approach. These mechanisms mirror Canada's successful model and would allow Europe to actively manage its rulebook over time.

Above all, Europe needs firm leadership to realise these reforms. This is not anti-consumer or anti-sustainability. On the contrary, it is recognising that without innovation and economic strength, Europe will struggle to sustain its social model and global influence. As Draghi has cautioned, competitiveness must be pursued alongside social and environmental ambitions, or all three will fail.

The Single Market reforms of the 1980s demonstrate that Europe can act decisively. That same boldness is required once again. If Europe chooses to regulate less but regulate better, it can re-establish its place in global tech leadership, transforming from a cautionary tale into a Silicon Continent. The moment for action is short, but the opportunity remains.

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