The Commission's Simplification Agenda is a Start – Now it Must Deliver

EPICENTER European Policy Information Center

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Summary

- The European Commission's Simplification Agenda aims to reduce red tape and foster competitiveness by reducing reporting requirements by 25% and regulatory costs for businesses by as much as €40 billion.

- The 'Competitiveness Compass' (European Commission 2025) sets measurable targets: a 25% reduction in administrative costs for large firms and a 35% reduction for SMEs. However, limited progress has been reported since its launch.

- The regulatory Laffer curve illustrates how excessive regulation, like excessive taxation, can diminish economic output. Empirical data from Spain indicate that citizens face a 'silent tax' of nearly €1,470 per person annually due to regulatory overload.

- Several examples of regulatory overreach, including the General Data Protection Regulation (GDPR), the Markets in Financial Instruments Directive II (MiFID II), the AI Act, and environmental mandates, demonstrate how well-intentioned rules often impose disproportionate burdens, especially on SMEs and startups, deterring innovation and investment.

- Case studies from Madrid, Argentina, and the US show that, when done strategically, deregulation can spur growth, entrepreneurial activity, and foreign investment.

- Simplification should target high-cost sectors first, such as energy and digital technologies, where overlapping and rapidly evolving rules stifle innovation and deter capital flows.

- Key policy recommendations for improving the EU's regulatory climate include prioritising a 'regulatory pause', adopting sunset clauses, deploying regulatory sandboxes in emerging sectors, and benchmarking progress with clear and ambitious goals.

- Simplification must become a permanent governance principle, not just a temporary campaign. Europe should shift its focus from expanding the quantity of rules to improving the quality of its regulatory outcomes, reclaiming competitiveness through coherent, pro-growth policymaking.

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About the author

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A much-needed reform

In recent years, the European Commission has signalled its intention to facilitate regulatory simplification. 'We will cut reporting requirements by 25%. That is our target. And we will deliver', declared Ursula von der Leyen in her 2023 State of the Union Address.[1]

In November 2024, Ursula von der Leyen introduced a comprehensive 'Omnibus Proposal' aimed at simplifying existing EU regulations, with a particular focus on sustainability reporting and due diligence directives. She emphasised the need to reduce administrative burdens to enhance competitiveness, further reaffirming the 25% red tape reduction target.

Following up on these promises, in January 2025, von der Leyen launched the 'Competitiveness Compass' (European Commission 2025). This strategic framework is designed to strengthen Europe's economic performance, highlighting highlights regulatory simplification as a core strategy to spur growth and encourage innovation. She emphasised the need for swift action and outlined measures to reduce administrative costs by 25% for large companies and 35% for small and medium-sized enterprises (SMEs), with the ultimate goal of saving European businesses an estimated €40 billion in regulatory costs.

This is more than bureaucratic housekeeping; it marks a political and economic realignment with significant consequences for Europe's competitiveness, productivity, and trust in public institutions. Europe appears to be finally acknowledging that its growth model is constrained by self-imposed restrictions that hinder productive investment and limit innovation, ultimately suppressing the supply side of the economy and creating an artificial barrier to the continent's prosperity.

The time for deregulation

This intellectual shift is supported by high-level reports by Mario Draghi and Enrico Letta, who emphasise that the challenges Europe faces regarding its competitiveness are closely tied to its regulatory burden (Draghi 2024; Letta 2024). Their conclusion is clear: the sheer volume of EU regulations – which often overlap, are outdated, or are unnecessarily complex – is holding back growth and innovation. However, many of their specific recommendations either fell too short or were simply too vague.

The emerging consensus around the need for deregulation is not limited to Brussels. In the US, there is renewed interest in deregulation as a pro-growth policy lever, while Argentina's new government has made regulatory streamlining a central feature of its economic recovery plan. Federico Sturzenegger, the architect of Argentina's deregulation drive under President Javier Milei, has proposed eliminating or simplifying over 2,000 regulations in a single legislative package. The Argentine experience suggests that removing artificial barriers to entry, relaxing licensing constraints, and promoting competition in previously overregulated markets can quickly revive growth, entrepreneurship, and investment.

In Europe, the Community of Madrid offers a compelling example. Over the past two decades, its successive regional governments have implemented sweeping reforms, combining significant tax cuts with an ambitious agenda for regulatory reform. The result is one of the most liberal regional economies in Europe. Madrid has passed more than 300 deregulatory measures, and it recently launched a major urban development initiative, which is expected to unlock 400,000 new housing units by streamlining zoning and construction procedures. Its strong GDP growth and rising appeal

[1] 'State of the union address 2023', European Commission, 13 September 2023. (https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_23_4426).

to both domestic and international investors are testimony to what can be achieved when liberal economic principles support the construction of a government's regulatory policy (Sánchez de la Cruz 2021).

A regulatory Laffer curve?

This is not a call for regulatory nihilism. Rules are essential to protect property rights, ensure competition, safeguard safety standards, and uphold environmental protections. However, as with taxation, regulation can reach a point where its costs exceed its benefits. This is the premise of the regulatory Laffer curve, a concept I recently quantified in my research on Spain with Professor Santiago Calvo (Sánchez de la Cruz and Calvo 2025).

Just as the original Laffer curve posits that excessive taxation can reduce total revenue, our notion of a regulatory Laffer curve proposes that excessive regulation can shrink economic output, negating the positive impact achieved through simpler, less onerous regulation.

Spain offers a clear case study. Our findings indicate that the regulatory burden imposes a 'silent tax' of nearly €1,470 per person each year. In aggregate terms, this amounts to a drag of close to €70 billion annually, which amounts to roughly 4% of Spain's GDP. According to our simulations, aligning Spain's regulatory framework with EU best practices would unlock productivity gains comparable to a major tax cut or a surge in foreign investment. More significantly, we find that Spain, like many mature economies, is already on the downward slope of the regulatory Laffer curve: every new rule adds more friction than benefit.

These findings align with a 2023 report by Danish think tank CEPOS, which called for a regulatory pause across the EU. The report emphasised that the most impactful short-term reforms would involve removing outdated or inefficient laws rather than introducing new ones. CEPOS estimates that this pause, combined with an ex-post review mechanism, could boost GDP by 1.5–2% across the bloc (CEPOS 2023).

Focus, focus, focus

The European Commission's simplification agenda originally aimed to reduce reporting obligations and administrative burdens by 25%. The next phase should take a more strategic approach. It should target the most expensive and growth-limiting regulations, particularly in the energy and digital sectors, where cumulative and fast-changing rules are already deterring investment and innovation. Consider energy regulation in Europe as an example; it is fragmented, often contradictory, and full of uncertainty. New green transition rules are layered on top of outdated frameworks, creating confusion for investors and developers. A more coherent, streamlined regulatory environment would not only accelerate the green transition but also encourage capital inflow. Likewise, in the digital sector, excessive and overlapping compliance rules have made data governance and AI regulation a complex maze. Startups and SMEs are particularly affected, as they often lack the resources to navigate constant change.

One prominent example is the General Data Protection Regulation (GDPR). Despite its intent to strengthen individual privacy, its implementation has created a compliance nightmare for small companies. Firms with limited resources are expected to hire data protection officers, conduct complex data audits, and manage strict consent protocols, all under the threat of multi-million-euro fines. The cost of compliance is often disproportionately high for SMEs, prompting some to exit the EU market altogether or avoid developing data-based digital tools.

Research suggests that the staggering costs of GDPR compliance for SMEs range from €20,000 to €100,000, encompassing increased demands for legal consultations, data audits, IT upgrades, and staff training. Larger companies processing high volumes of personal data spend up to €70 million annually, depending on their complexity and global reach.

A global PwC survey revealed that 88% of firms expect annual GDPR-related costs to exceed €1 million, while 40% admitted to spending over €10 million each year just to remain compliant (PwC 2024). These costs extend beyond initial implementation costs to recurring financial commitments, as firms are expected to continuously update their systems, implement new procedures to monitor compliance, and adapt to regulatory interpretations.

Although the GDPR aimed to establish a global benchmark for privacy protection, its practical impacts on innovation and competitiveness are substantial. Startups, and smaller firms in particular, are forced to divert critical resources from product development to legal and technical compliance.

Another flagrant example of regulatory overreach is the Markets in Financial Instruments Directive (MiFID II). Intended to improve transparency in financial services, its rules on research unbundling and reporting have significantly raised compliance costs for financial services providers without clearly improving outcomes for retail investors. Small financial advisory firms and boutique asset managers struggle to absorb these administrative burdens, which have reduced competition and consolidated market power among larger institutions.

Research confirms the high cost of implementing such regulation. A report by the Association for Financial Markets in Europe (AFME) estimated that MiFID II entailed additional implementation costs of over €2 million per large firm in the industry, along with recurring annual costs well over €750,000. Across the financial sector, the total implementation costs of MiFID II are estimated to be between €2.5 billion and €5 billion (Opimas 2017). For end users, the unbundling of research costs has reduced access to analyst reports, particularly for small and mid-cap firms. This may potentially lead to less efficient capital allocation and higher transaction costs for investors. Although the directive aimed to 'protect' consumers, critics argue that it has unintentionally advantaged large institutions and reduced market diversity.

The European Union's AI Act presents yet another case of how well-meaning regulation can unintentionally stifle innovation. By classifying broad categories of AI applications as 'high risk' and mandating expensive and rigorous compliance procedures, the regulation places a disproportionate burden on small-scale developers. A two-person startup working on AI tools for personalised learning, for instance, may face nearly the same compliance costs and audit requirements as a multinational tech firm. This misalignment undermines Europe's goal of fostering innovation and global competitiveness in frontier technologies.

Environmental regulations exhibit a comparable pattern of overreach:

- The proposed ban on internal combustion engine vehicles by 2035 is intended to reduce carbon emissions, but it has led to a range of unintended consequences.

- Car manufacturers are forced to reallocate vast resources to electric vehicle production under political and regulatory pressure, without corresponding developments in infrastructure.

- Charging networks in many EU countries remain underdeveloped, and existing energy grids are not equipped to handle the resulting surge in demand.

- Transitional solutions, such as synthetic fuels, plug-in hybrids, or hydrogen combustion, which could significantly reduce emissions without disrupting supply chains, are either excluded or heavily disincentivised under the current regulatory framework.

Regulatory accumulation and rising compliance costs

These examples reflect a broader trend: many EU regulations are drafted in silos, with little consideration for feasibility, sectoral overlap, or unintended consequences. Worse still, these rules are rarely reviewed after they are enacted. The cumulative effect is a growing stack of regulations, with outdated or contradictory provisions left untouched. This creates legal uncertainty and rising compliance burdens, particularly for SMEs.

The challenge is especially acute in sectors undergoing rapid technological transformation. In biotech and digital health, startups aiming to develop diagnostic tools based on wearable sensors often face the same regulatory scrutiny as pharmaceutical manufacturers. This delays market entry and discourages investment, placing Europe behind the US and parts of Asia in the race to lead in next-generation health technologies.

In the construction sector, overly rigid building codes and inconsistent permitting procedures delay both public infrastructure and private housing projects. A 2022 study by the European Investment Bank found that construction permitting delays in many European countries add an average of 12–18 months to major public projects and private-led housing developments. These delays increase costs and dissuade long-term investment by private developers, ultimately contributing to weak infrastructure and a chronically imbalanced housing market.

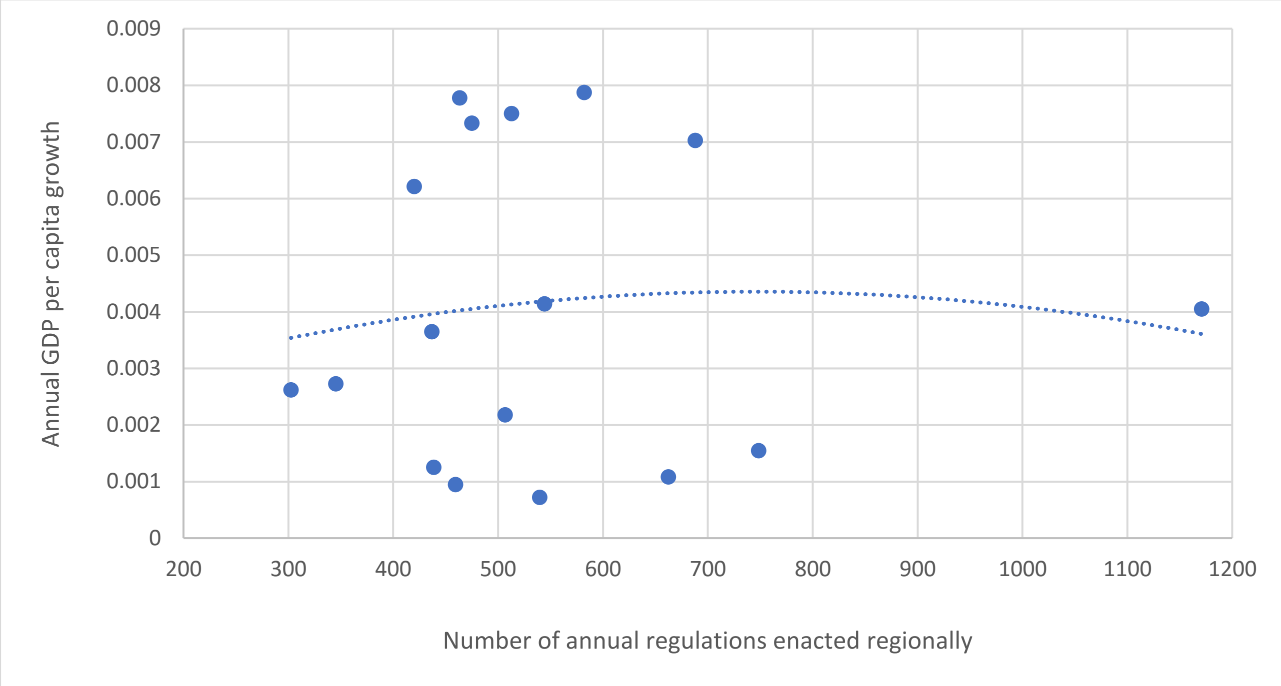
Member states and the need to cut red tape

Simplification, therefore, is not just about ‘cutting red tape’; it is about fostering a regulatory environment that is stable, predictable, and proportionate. The regulatory Laffer curve helps conceptualise this: while regulation can reduce uncertainty and establish clear parameters, there is a threshold beyond which further rules increase compliance complexity, lower productivity, and increase legal risk.

In Spain, our analysis shows that every additional point of regulatory complexity lowers per capita income by approximately €160. This has massive implications. Spain’s complexity score fell from 26.1 in 2015 to 13.2 in 2022, pushing the country further into the unproductive zone of the regulatory curve. Over the same period, the estimated ‘regulatory tax’ rose from €94 to €1,470 per person.

Figure 1 illustrates how Spanish regions that enact more than 450 legislative measures per year enter the downward slope of the regulatory Laffer curve. At this point, the economic costs of overregulation outweigh the potential benefits of the new rules, ultimately leading to a net loss in GDP per capita growth.

Figure 1: Relationship between GDP per capita growth and annual regulation (data for Spanish region, 1975-2023).



Source: Author's analysis

Most EU countries face similar trends. Decentralised governance systems often result in redundant and inconsistent rules across sectors and regions. According to the OECD's *Regulatory Policy Outlook* report, the EU still has considerable room to improve (OECD 2025). While countries such as the Netherlands and Denmark score highly on regulatory impact assessments and stakeholder engagement, other large economies, such as France, Italy, and Spain, lag behind. Only a few EU members require systematic ex-post evaluation of existing rules, meaning that many outdated or inefficient regulations remain in force despite their limited utility and added complexity.

For instance, Italy's fragmented commercial permitting rules can delay the opening of a basic bar or shop by over 60 days and require the filing of a dozen separate authorisations. Similarly, in France, agricultural producers must comply with both national and EU pesticide regulations, which often contradict each other. This creates confusion and raises the risk of incurring non-compliance penalties even for well-intentioned farmers.

A further concern is regulatory capture. While more regulation might suggest increased oversight, in practice, excessive rules often benefit large incumbents who can afford compliance teams, while pushing smaller, more innovative firms out of the market. This entrenchment of market power goes directly against the EU's competition principles and undermines the digital and green transitions. Tech giants and energy monopolies can navigate complex rules through dedicated legal teams. Startups and small energy cooperatives cannot.

Towards a clear simplification agenda

A credible simplification agenda should be based on clear principles. It must prioritise better, fewer rules; expand ex-post evaluations; apply sunset clauses to new regulations; and establish robust stakeholder consultation processes. It should also deploy regulatory sandboxes in emerging sectors – from fintech to biotech – to test policies before full implementation. Countries such as the UK and

Lithuania have demonstrated the effectiveness of such sandboxing in promoting responsible innovation while maintaining oversight.

Simplification should be a permanent feature of governance, not a one-time initiative. This requires building institutional capacity, such as establishing independent regulatory oversight bodies and equipping them with the tools to assess not only the flow but also the stock of regulations. The Regulatory Scrutiny Board of the European Commission could be further empowered and resourced to take on this role effectively.

Digitisation can help. Improving data infrastructure and interoperable systems would allow member states to monitor compliance burdens in real time, map overlaps, and identify areas for repeal. Regulatory technology (RegTech) solutions, which are already being used in the financial sector, could be expanded to other domains. The EU could even fund open-access dashboards to show regulatory burdens by sector and region. In parallel, comparative benchmarking tools could be deployed to identify which member states are achieving regulatory objectives with the least cost burden, promoting a 'race to the top'.

The Draghi and Letta reports both arrive at the same conclusion: Europe cannot restore its competitiveness without addressing the cumulative drag of overregulation. Yet, as the Commission simplifies with one hand, it continues to legislate with the other. For every rule it repeals, it seems to propose two more. This incoherence risks undermining the entire project.

If simplification is to succeed, the EU must prioritise quality over quantity and coherence over proliferation. It must stop measuring regulatory success by the number of laws it passes, and instead assess economic outcomes: are firms more productive? Are consumers better served? Is investment flowing? Are jobs being created in emerging sectors?

The regulatory Laffer curve provides a framework; the CEPOS proposal offers a roadmap; and the Draghi and Letta reports supply the political cover. What remains is the courage to act.

Europe cannot afford to regulate itself into stagnation. It must reclaim its role as a region of dynamism, innovation, and opportunity – starting with a bold and sustained Simplification Agenda. That means committing to genuine review and repeal, listening to SMEs and startups, and building a system that evolves with innovation rather than attempting to constrain it.

Only then can the Commission's simplification agenda fulfil its promise. Not as a bureaucratic exercise, but as a foundation for a more prosperous, competitive, and innovative Europe.

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