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Unburdening Enterprise: Reducing Regulation for Small and Medium Businesses [1]

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Regulatory confinements very often result in wrong policy perceptions and adverse policy conclusions. In an attempt to create a safer environment they impose a number of rules, procedures, and amendments to these rules that eventually end up stifling companies and diverting their resources away from productive activities. This is particularly endangering for small and medium-sized businesses (SMEs), considered to be the drivers of growth in an economy.

Small and medium-sized businesses make up an integral part of the private sector. The recovery depends on them to create jobs and replace public sector spending. But we cannot expect them to flourish under current regulatory and tax conditions. The focus of the ASI?s new report ***Unburdening Enterprise*** [3] was to identify the most cumbersome and harmful regulations, taxes, and other barriers to growth and to offer possible solutions to relieve the businesses of these burdens. Having undergone a range of surveys among businesses, several constraints were recognized, including employer?s national insurance contributions being too high, problems with access to finance, regulatory compliance costs, hiring obstacles, fear of employment tribunal, and a lack of confidence due to the uncertainty regarding the unfolding of the recession.

With the UK experiencing deteriorating productivity, keeping on inefficient workers subject to employment law protection is a policy that will keep productivity low for quite some time. Low productivity is a sign of an economy stuck in a structural shock (bad equilibrium). Domestic competitiveness is deteriorating, making domestic businesses inflexible in adapting to market conditions. This will only make them more prone to failure.

It these times of uncertainty and lack of confidence, government subsidies to businesses in favoured industries won?t create an incentive to invest or hire more. Just like the banks, the businesses choose to hoard cash since they are uncertain on the future returns on their investments. On the other hand, the private sector is currently engaged in a massive deleveraging process. Introducing subsidies and stimuli

will only shift the resources from making profits on their regular markets onto making favours on the political market in order to attract the subsidies. Cutting costs creates a completely different incentive ? it gives the business an incentive to use its resources more efficiently and to transfer them into more production or more hiring.

This report aimed to show how decreasing costs for businesses is a much wiser, cheaper and efficient policy than a subsidy or a fiscal stimulus, as it creates economically better incentives for businesses. It is particularly important to create a healthy, competitive, market environment where firms compete for customers rather than political or bureaucratic favours. Otherwise, we are dangerously close to a system of crony capitalism where political signals rather than consumer demand drive the incentives of the private sector.

The plea for less regulation doesn?t imply removing all regulation since SMEs need a sense of reliability and guarantee in order to be considered a credible borrower. Deregulation is a call for reducing and removing all those regulative, administrative, and legal burdens that exemplify adverse use of resources and constrain a business in its growth and development.

The report?s main proposals include:

- Abolish employers? National Insurance contributions. This proposal has a potential of creating a minimum of 500,000 jobs by relaxing the tax burden on employment.
- Reverse the 5.6% increase in business rates from April 2012 to free up funds for businesses.
- Substantially reduce costs for the SMEs by removing all unnecessary administrational burdens. The government should continue with its deregulatory agenda demanding higher efficiency from all departments.
- Simplify the regulatory system for SMEs in order to remove the necessity of hiring lawyers and accountants to help them comply with regulatory standards. Simplification should benefit all UK SMEs.
- Put a stop to all new regulation coming in from EU that targets SMEs. This will save them a total of £100bn per year (£23,000 per business) ? enough to hire an additional employee or invest into new capital creation and production.
- Make it easier for employers to fire employees for misconduct. This will make it more attractive for employers to hire, and will increase labour market flexibility.
- Encourage businesses to take more temporary, zero-hour and fixed term employees. Introduce the option of self-employment for SMEs. It saves money, increases job creation and channels resources into profit-making opportunities.
- Remove the minimum wage to create youth jobs.
- Encourage private sector solutions to help businesses chase late payments and increase their availability to credit.

Download the whole report here.[3]

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