Tomorrow's Affairs

Analysis of today
Assessment of tomorrow

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The European Union's Biggest Problem. Excess of Regulation

When we discuss the economy, it is essential to explain the true causes of the European Union's stagnation and excessive debt.

One of the causes is a confiscatory and extractive tax system that suffocates small and medium enterprises, which make up most of the European Union's business fabric. The effective average tax rate for businesses in the EU is estimated at 21.0%.

However, when we account for all direct and indirect taxes, it soars above 35%. Furthermore, the average tax wedge in 27 European countries was 39.8% for a single worker without children, compared to the OECD average of 34.8%. Belgium had the highest at 52.7%. The enormous labour costs are one of the key drivers of weak competitiveness.

Employer social security contributions, a tax on labour, are very high. In France they go from 45% to 68%. This is a clear disincentive to investment, the creation of quality jobs, and the increase in business size, which is a critical factor in Europe.

Regulatory burden

Energy costs are also unacceptably high. EU industrial electricity prices are roughly 2 to 2.5 times higher than those in the US on average. In some EU countries, prices can be more than triple those in the lowest-cost US regions, according to a European Central Bank study (How enduring high energy prices could affect jobs, May 2025).

EU industrial gas prices remain between 2 and 4 times higher than in the US, even after the 2021–2023 energy crisis. This difference is a critical factor for sectors like chemicals, metals, and cement.

The European Union publishes approximately 1,200 regulations, 80 directives and 700 decisions each year, according to Toshkov's 55 Years of European Legislation using data from the EUR-Lex portal.

> Excessive regulation reduces investment, productivity, and per capita income

A simple, facilitating, and clear regulation is positive, but excessive regulation reduces investment, productivity, and per capita income.

The Spanish Juan de Mariana Institute has calculated a "Regulation Laffer Curve" that shows the tipping point when additional regulation hinders economic growth. It shows how Spanish regions like Madrid and the Basque Country, with lower regulatory density, grow much more than others like Catalonia, where the regulatory burden is up to four times higher.

Regulation and taxes

The cost of this fiscal and regulatory excess is enormous.

The cost of excessive regulation in the European Union is estimated at up to €1 trillion per year, or between 3.7% and 12.3% of GDP, according to Eurochambres. In Mario Draghi's report, "The Future of European Competitiveness," he explains how internal tariffs raise prices in manufacturing by 45% and in services by 110%.

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If the European Union abandoned its

regulatory obsession, it would unlock a very significant source of growth and investment, which would lift the EU from stagnation, improve tax revenues, and significantly reduce the debt and deficit problem of many of the member states.

The European Union does not have a problem of human capital, entrepreneurs, or financial strength. The EU businesses and banks can compete with the best.

What the EU has is a confiscatory tax system and an enormous bureaucratic and interventionist regulation burden. Bureaucrats consider companies as ATMs to be raided and put small businesses and families at their service instead of them serving the productive fabric.

The European Union needs deregulation and lower taxes instead of constantly blaming an external enemy for its problems.