THE REGULATORY IMPACT ON SMALL BUSINESS:

COMPLEX. CUMBERSOME. COSTLY.

FINAL REPORT

March 2017

U.S. CHAMBER OF COMMERCE FOUNDATION

Table of Contents

List of Tables and Figures in Appendices

The U.S. Chamber of Commerce Foundation is dedicated to strengthening America's long-term competitiveness. We educate the public on the conditions necessary for business and communities to thrive, how business positively impacts communities, and emerging issues and creative solutions that will shape the future.

The U.S. Chamber of Commerce Foundation would like to recognize the Praxis Strategy Group and ndp|analytics for their research and writing contributions to this report.

U.S. CHAMBER OF COMMERCE FOUNDATION

ndp analytics research • data • innovation

PRAXIS Strategy Group

Executive Summary

Across America, small businesses are driving innovation and economic growth. Yet these job creators are increasingly strangled by a growing net of complex and cumbersome regulations at the federal, state and local levels. The regulatory cost of just the largest federal rules totals more than $40 billion, with small businesses shouldering a full 82% of the cost. State and local governments add to this burden with additional layers of regulation. While the requirements vary, state and local regulations in the areas of minimum wage, workers compensation, unemployment insurance, and occupational licensing have an especially negative impact on small businesses.

With the support of the Bradley Foundation, the U.S. Chamber of Commerce Foundation undertook this study to assess the full impact of federal, state, and local regulations on small business. Despite the enormity, complexity, and cost of this growing net of regulations, few studies have examined the total impact on small business.

Key findings of this literature review include the following:

- Government regulations have a sizable impact on free enterprise in America, disproportionately impacting small businesses.
- Federal regulations alone are estimated to cost the American economy as much as $1.9 trillion a year in direct costs, lost productivity, and higher prices. The costs to smaller businesses with 50 employees or fewer are nearly 20% higher than the average for all firms.
- Every $1 increase in per capita regulatory expenditures are directly correlated with decreases in the smallest firms (those employing between one and four persons) by 0.0156%, a figure whose burden quickly adds up.
- Based on the current regulatory climate, nearly one in three chamber executives we spoke with as a part of this project say they would not actively encourage new business establishment and relocation in their regions. More than two-thirds reported that federal regulations have become “more” or “much more” significant over the past several years.

The results of this research provide meaningful insights for the business community. It is also evident that better assessment of the impacts, challenges, and possible reforms will require an increased commitment to gathering data and supporting innovative research. Armed with these facts, advocates will be better able to push for needed reforms, identify potential partners, and make the political and economic case for effective small business regulatory reform at all levels of government.

All tables and charts can be found in Appendices A, B, and C. (e.g., Table A1, Figure B2, etc.)

Why Small Business

An Engine for Economic Prosperity

The story of American business is for the most part a small business story.[1] The aspirations, goals, motivations, and successes of new entrepreneurial startups and small businesses are directly tied to the success of the American economy. It is imperative that entrepreneurs and governments at all levels work together to ensure that the regulatory environment is not a stumbling block to American small business.

More than 45% of U.S. gross domestic product is driven by the small business sector. About 98% of the country's businesses have fewer than 100 employees.[2] Nearly half of workers in the American private sector are employed by small enterprises. Historically, small businesses have been responsible for two-thirds of all net new jobs.[3] This ubiquity makes small businesses a key piece of the American economy, playing a critical role in its success and growth.

Each year, more than half a million new business establishments are launched, creating more than 2.5 million jobs.[4] The country is home to another 23 million non-employer businesses, which, according to the Census Bureau, run "the gamut from old-fashioned family-run corner stores to home-based bloggers."[5] Many of these businesses represent sideline businesses, offering individuals with entrepreneurial aspirations a chance to launch their own businesses and to improve their economic circumstances.[6]

Unfortunately for entrepreneurs, workers, and the national economy, there are signs that small business growth and job creation remain stagnant. America is in the midst of a three decade-long slump in firm formation across a range of sectors.[7] In 1980, more than 450,000 new companies were started. By 2013, that number had declined to 400,000, even though America's population was nearly 40% larger.[8]

Private business analysts reported modest acceleration in small business job growth in 2016. Small businesses ended 2016 marking 63 straight months of job gains, but measures of growth have been slowing since 2014.[9] The NFIB Research Foundation's *Small Business Economic Trends* report noted at the end of 2016 that "in spite of rising post-election optimism, reported job creation remained weak."[10] Startup activity remains below pre-Great Recession levels, according to the Kauffman Foundation, and the number of startups with employees is still on a 1970s-era decline.[11]

A Disproportionate Impact

Businesses have to comply with federal regulations as well as stringent state and local regulations. In addition to existing regulations, federal, state, and local government agencies are given an average of 15,000 new laws per year that spur more regulations. The regulatory cost burdens to businesses include compliance, reporting, and record keeping. With limited resources, the regulatory cost burdens to deal with red tape account for a significant share of operating costs for small businesses.

The complexity of the federal, state, and local regulatory systems creates disproportional cost burdens on small businesses. With smaller staffs and more limited access to specialized legal knowledge, small businesses are less equipped to deal with regulations at all levels of government. This limited capacity contributes to higher compliance costs felt by smaller firms. According to the Small Business Administration (SBA), small firms bear a regulatory cost 36% higher than the cost of regulatory compliance carried by larger firms, measured in dollar cost per employee.[12]

These added costs are even more magnified on the smallest businesses, which face the most limitations of staff and skills needed to comply with regulations. According to research released in 2014, small firms and startups with fewer than 50 employees incur regulatory costs of more than $11,700 per year per employee, 17% higher than the average for all firms.[13] Regulations increase the cost for all businesses, but the "higher regulatory hurdles appear to disproportionately disadvantage the smallest of firm sizes, giving a relative cost advantage to larger establishments."[14]

Increasing regulatory costs also have a negative impact on the percentage of small businesses in an industry. For every 10% increase in regulatory costs, there is a 5%–6% fall in the number of small businesses with fewer than 20 workers.[15] The percentage of small firms within industry sectors is important because of the dynamism that small businesses create. For instance, small firms innovate at a faster rate than larger businesses, and the absence of those small firms could stifle the broader economic and societal benefits of innovation.[16]

Simply dealing with paperwork required by government regulators can represent a major hassle for small businesses. According to small business surveys conducted by Babson College, on average, "four hours per week is spent dealing with government regulations and tax compliance, which totals over 200 hours per year." A majority of surveyed entrepreneurs (60%) identified "some level of difficulty understanding and managing government regulations and laws." Often, the burden of compliance falls on the owners of the business, taking them away from other activities necessary to build and strengthen their company.[17]

A Disproportionate Weight on Small Business: Analyses by Industry

Research examining specific regulations and industries has found that regulations often have a more significant impact on smaller businesses than on larger forms. Smaller firms are less able to cope with complex codes and rules.

- Greenhouse gas regulations issued by the Environmental Protection Agency (EPA) in 2013 hit small businesses hardest. According to the American Action Forum, **"the smallest businesses would bear a regulatory burden 65 times greater than their largest competitors do"** (Batkins, 2013).
- Examining regulatory costs incurred by manufacturers, a 2015 study by the National Association of Manufacturers found that **small manufacturers with fewer than 50 employees paid nearly $35,000 per year per employee just to comply with federal regulations** (Crain and Crain, 2014)**.** This is 75% higher than the average for all manufacturers, which was $20,000 per employee in compliance costs.

Where the Jobs Are—Sector Employment

The U.S. Census includes a breakdown of the number of firms by size in industry sectors as part of its annual County Business Patterns dataset. These data allow an analysis of the percentage of workers in each sector employed by small and medium-size enterprises (SMEs) with 500 or fewer employees in 2013.

When overall employment is taken into account, several industries stand out for their concentration of employment at SMEs and overall size in the economy (Table A2). They include construction (8.0% of total SME employment); accommodation and food services (13.1% of SME employment); professional, technical, and scientific services (8.6% of total SME employment); and other services (8% of total SME employment), a category that includes businesses such as automotive repair and barber shops. Although the health care and social assistance industry cluster trails the national total of 48% of employment at small and medium-size firms, its high level of total employment makes it home to 15% of all SME jobs, the largest share of any industry.

Literature Review

Small Businesses and Regulatory Impacts

Small businesses in America face a multitude of challenges in dealing with regulations. Among the issues faced by small firms are higher costs to customers, decreased competitiveness, the labor and time involved in compliance, and the direct cost of implementing actions to comply with regulations. Small business owners could reduce profits to absorb regulatory compliance costs or regulatory costs could be passed down to consumers in form of higher prices.[18] However, employers generally put profits back into their businesses in the form of higher wages, increased benefits, or more employees. As a result, these hidden costs of regulation may impact consumers' buying power while undermining small business competitiveness, particularly when measured against larger firms with greater economies of scale to absorb regulatory costs.

Measuring the Cost

Researchers have compiled estimates based on publicly available data of the cost of regulations on firms, including America's small businesses. A review of this literature—as well as our own summary from federal, state, and local data—is compiled here to help frame the cost of regulations.

According to estimates and research by the Competitive Enterprise Institute,[19] the overall cost in lost economic productivity and higher prices of federal government regulations was about $1.9 trillion in 2014.[20] Nearly 70% of the modeled impact was from economic regulations. This may represent a high-end estimate, and regulations can offer benefits to businesses by ensuring a "robust competition framework,"[21] but compliance with their requirements clearly carries a major cost.

Government-backed research has also been commissioned seeking to measure the impact of regulations on businesses across the nation. According to a 2015 report by the Office of Management and Budget (OMB), the estimated annual costs of federal rules and paperwork "are in the aggregate between $57 billion and $85 billion."[22] When measured in 2010 dollars, the total cost to businesses would be between $69 and $103 billion annually.[23]

> *"It is difficult, if not impossible, to estimate the actual total costs and benefits of all existing federal regulations with accuracy. We lack good information about the complex interactions between the different regulations and the economy."*
>
> —OMB *Report to Congress*

Nevertheless, the OMB study aggregated the costs incurred by only "major federal rules"—those "having an impact of at least $100 million in at least one year."[24] Between fiscal year 2005 and fiscal year 2014, "federal agencies published 36,457 final rules." Of these, only 549 were considered "major federal rules," and many of these were budgetary transfer rules, which might "not impose a significant private mandate."[25] While the costs of compliance of the almost 36,000 rules not measured might be limited when considered individually, the overall burden also went unmeasured by the OMB. Generally, major rules "comprise likely less than 10% of the regulatory pipeline at any given time," but this leaves 90% of regulatory actions unmeasured in detailed scope.[26]

Analyst Wayne Crews of the Competitive Enterprise Institute estimates federal regulatory costs at more than a trillion dollars annually.[27] The OMB's report admits its limitations, noting that "the estimates are therefore not a complete accounting of all the benefits and costs of all regulations issued by the Federal Government during this period."[28] As a result, the actual total impact of federal regulations is most likely higher than the figures cited by the OMB.

In 2015 alone, federal agencies in five departments published 63 final economically significant rules (those rules that have an annual effect of $100 million or more on the economy) in the *Federal Register*. Of these rules, 23 were identified to have a significant impact on a substantial number of small businesses. The agencies calculated that regulatory cost burdens of these 23 rules —such as compliance, paperwork, and conversion costs—were nearly $4.9 billion a year for large and small businesses, of which more than $4.0 billion was attributed to small businesses. In other words, small businesses were paying 82.3% of the total regulatory cost burden of these 23 rules in 2015 (Table A1).[29]

Taking the annualized regulatory costs of $4.0 billion a year in 2015 (Table A1), we estimate that the total regulatory burdens to small businesses for all federal regulations implemented from 2006 to 2015 was $40.0 billion in 2015 alone.[30] The cumulative cost on small businesses of the regulations measured in this paper—including federal economically significant rules and four state and local employment regulations—is nearly $173 billion per year from 2014 to 2015. With $173 billion, small businesses could create more than 4 million direct jobs to produce more than half a trillion dollars of goods and services per year (Table A2).

The direct costs of regulation have spillover (indirect) effects on the economy. The total direct and indirect effects of federal rules as well as select state and local regulations equal more than 11 million jobs that earn $378 billion in wages and contribute $1 trillion of goods and services to the economy per year. Small businesses account for approximately two-thirds of total direct and indirect effects (Table A2).

Classifying the Impacts of Regulation on Small Business

Regulations impose multiple types of cost burdens on economic activity, including indirect and induced costs as the market reactions to regulations cascade through the economy. The direct costs to small businesses can be broken down into several categories. Research conducted in California found these cost classes to include output, employment, indirect business taxes, and labor income.[31]

Output costs measure "total revenues lost including all sources of income for a given time period for an industry in dollars," and are perhaps the "best overall measure of business and economic activity lost" to regulations.[32] Economists, looking to measure an economy's potential, will refer to an economy's production capacity: a measure of the "potential output" of an economy if all resources are being used to their full potential.[33]

When an economy fails to perform at its full potential—for any reason—a negative output gap occurs, creating a situation where "actual output is less than what an economy could produce at full capacity." An output gap is "an economic measure of the difference between the actual output of an economy and its potential output."[34] Demand is a key factor in setting actual output. Put more directly, "the capacity of an economy to produce is shaped by the legal and economic framework."[35] As a result, "changes in these framework conditions can have a sizeable impact on the growth capacity of the economy."[36]

Impact by Class of Regulation

Measuring the relative challenge posed by different types of regulations can represent a challenge. Each class or type of regulation carries different requirements, and not all regulations apply to all types of small businesses, depending on the activities in which they are involved. This lack of universality can make objective comparisons of regulatory burdens by class difficult.

Chamber officials surveyed about the relative challenges of different classifications of regulations reported that regulations related to environmental protection (82.2% "difficult" or "very difficult"), labor and hiring (79.5%), and land use and construction (77.7%) were rated as among the most difficult types of regulation for small business compliance (Table B1).

A Negative Impact on Entrepreneurship

The weight and complexity of regulations may discourage entrepreneurs from starting or growing their businesses. Nearly one in six (15.2%) of the chamber executives surveyed reported that they would either discourage or strongly discourage businesses from locating in their region due to the regulatory climate (Figure B7). Another 15% said they would neither discourage nor encourage businesses to locate in their region. This means nearly one in three chamber executives we spoke with said they would not actively encourage new business establishment and relocation in their regions based on regulatory climate.

> *Every **"$1 increase in per capita regulatory expenditures is associated … with a reduction in the percentage of 1–4 employee establishments by 0.0156%**. … **As economic freedom increases due to favorable government policies, entrepreneurs are more likely to start new ventures** … There is a clear reduction in the percentage of establishments with fewer than 4 employees and an increase in the larger categories … What this implies is that **states with bigger regulatory environments** tend to **make it more difficult for the smallest of businesses to open."***
>
> *—Calcagno and Sobel, 2013*

Given their role as champions of business and growth, this level of chamber executive pessimism regarding business establishment and growth is notable. The vast majority of chamber officials are still inclined to encourage new and growing businesses, though the negative mind-sets shaped by regulation may create a climate where risk taking and entrepreneurship are discouraged rather than cultivated. Regulatory climates vary from state to state and region to region, but this pessimism in certain regions may negatively affect growth, prosperity, and economic growth.

Entrepreneurial startups are a key part of the small business puzzle, providing the energy and innovation as well as the job creation needed to help spur economic growth at the grassroots, local level. According to the Kauffman Foundation, these "new and young companies are the primary source of job creation in the American economy."[37] Companies under one year in age have "created an average of 1.5 million jobs per year over the past three decades," employing Americans, building communities, and creating prosperity.[38]

Perceptions and Impacts

Regulatory uncertainty, while hard to estimate in cost, is one of the biggest perceptual challenges surrounding regulation and productivity (particularly for small and medium-size enterprise). According to one study, "in the face of uncertainty, firm owners may react by postponing strategic decisions in favor of focusing on operations." This can reduce overall productivity in the economy, and negatively impact growth and job creation. Regulatory uncertainty may also "affect [a] firm's resource allocation decision by shifting resources from potentially productive activities to compliance," and may cause companies to "divert their resources towards less productive business processes" to avoid regulations or regulatory uncertainty.[39]

Many smaller businesses with a lower capacity to handle regulations may even overestimate the amount of regulations that actually exist. This fear of pending regulatory hurdles may cause them to make decisions based on faulty information and avoid making potentially productive changes that could increase their competitiveness.[40] Most chamber officials surveyed felt that small businesses in their regions are able to effectively access information on the regulations that impact their businesses; however, there is a notable burden in the overall time and effort spent locating that information and then assessing how to act on it (Figure B8).

More Regulations, Less Safety

Regulations are often enacted by well-intentioned lawmakers and government personnel seeking to protect public health and create safe work environments, but there is some evidence that increased regulation can have a deleterious effect on safety-related outcomes. According to the Mercatus Center, this "regulatory overload occurs when too many, and too detailed, regulations swamp businesses." This situation, where businesses and economies overwhelmed by the number and complexity of regulations, may lead to deleterious effects, including "reduced compliance, less innovation, and increased uncertainty."[41]

Unclear, vague, and inconsistent regulatory schemes can contribute to regulatory overload, leaving small businesses with a lack of understanding regarding the standards they must meet.[42] As a result, they may fail to meet standards that could actually improve safety outcomes in their workplaces owing to a lack of understanding of effective measures that should be taken. In these cases, regulations, while meaningfully intended to increase safety, may actually have the reverse impact—creating a situation where the regulatory regime is unclear, or so "burdensome and complex that it actually reduces safety."[43]

Regulatory Failure: Competition and the Impact of Underregulation

Compliance with regulations carries a cost, but government failure to ensure that regulations are fairly applied can also create major challenges for small business owners. Being able to depend on reliable, evenhanded enforcement of new and existing regulations helps ensure that small businesses can compete on a reasonably level playing field while competing for business. A lack of enforcement or spotty enforcement can allow competitive imbalances to develop, putting honest entrepreneurs under economic stress for following the rules to the best of their ability.

Good corporate citizens seeking to follow health, safety, and other well-intentioned regulations may find themselves at a competitive disadvantage as less scrupulous competitors cut corners and keep costs low by ignoring rules and regulations. For example, contractors seeking to follow EPA asbestos safety regulations issued in 2010 found that the new regulations added huge new costs in paperwork and new equipment. According to construction industry experts, many contractors simply ignored the regulations, dodging the rules due to lax EPA enforcement.[44] Small contractors who followed the regulations in good faith found themselves at a competitive disadvantage in bidding jobs. Even if regulations are well aimed and designed, a failure to enforce them effectively and equitably can place high costs on small businesses.

Enforcement

Issuing Citations or Helping Compliance

Despite differing estimates of the overall impact of regulations on American business, it is clear that compliance with regulations carries a cost. However, as seen in cases of selective or poor enforcement, the method of implementation also shapes the overall effect of regulations on small businesses. By giving businesses greater latitude to meet the letter of the law, including multiple routes to compliance, government can provide opportunities for innovative compliance by individual businesses.

An increased focus on cutting administrative complexity, allowing more flexibility in compliance, and a government focus on improving and reforming regulatory processes can make a world of difference to small businesses, even if the number or type of regulations don't change. According to research by the World Bank, governments that have embraced regulatory modernizations have found that "regulatory reform and performance is much more than cutting red tape."[45] Eliminating regulations and rules can make sense, but it may leave the same inefficient institutions and processes in place to enforce the regulations that remain. The downstream impact of the regulatory process, where the rules are placed into action, can be just as important as the policy made upstream. Reforming the implementation process offers another avenue to reduce the burden of small business regulation.[46]

> *"By focusing on results (outcomes) rather than on the means for achieving them (inputs), performance standards permit each regulated entity greater freedom of action to find the lowest-cost or best means of complying for itself. Outcome standards can improve compliance by reducing the costs of compliance with technical rules and encouraging innovation to find the most effective ways to reach socially desired outcomes."*
>
> *—Organisation for Economic Co-operation and Development, 1998*

When regulations are enforced, there can be wide variance in interpretations by regulators. There is a difference between what's on the books and how it's enforced—regulators may implement according to their own interpretation. Regulators have little incentive to cooperate with businesses or with each other, thereby exacerbating the problem. As a result, the burden of regulation often greatly exceeds the requirements directly imposed in rulemaking.

In addition to dealing with inefficient or antiquated regulatory processes, small businesses face other burdens when attempting to deal with new regulations. When new regulations are issued, companies, regardless of size, must spend time assessing the applicability to their businesses. If a rule applies, businesses may find themselves investing time in assessing "whether there is a gap between their current practices and those now required" by the new regulations.[47] Time spent on discovery may represent an overlooked cost of regulation, particularly for small businesses, which can lack the staff needed to dig into new regulations and their implications in the same way that larger businesses with more staff do.

Discovery costs exist independent of the expenses of bringing activities into compliance, which may carry their own set of costs:

> *Compliance costs fall disproportionately on small businesses, which lack the ranks of internal management for translating large and complex rule sets … regulations are often written with a view to the complex and formal internal procedures of large companies and are ill-suited to implementation by smaller companies.*[48]

Higher levels of government may be more likely to impose “one-size-fits-all” regulatory schemes that ignore “local heterogeneity,” overlooking the special needs and characteristics of businesses in a specific city or region.[49] In contrast, there are times when regulation by central government may be more efficient and effective, presenting a clear standard that puts businesses in multiple jurisdictions on a level playing field and allowing for more graceful management of issues with “interjurisdictional spillovers.”[50] Critically, regulations—if necessary—must be implemented at the level and department of government that offers the best fit for effective, efficient implementation, reducing the negative costs to business and the economy.

Interacting Impacts

The Complex and Growing Regulatory State

The United States is home to a vast multitude of governmental units, providing a complex web of potential regulatory challenges for small businesses and new entrepreneurs. According to the 2012 *Census of Governments*, there are an estimated 90,106 state and local governments in the United States.[51] An aspiring business owner may face the challenge of having to deal with regulations and rules promulgated and implemented by multiple state and local governmental units, in addition to dealing with federal requirements. While each state and local regulatory climate is different, the very amount of points of contact to be navigated presents a potential stumbling point to small business establishment and growth in all areas of the country.

> **Small Businesses and the Regulatory Process:** The Small Business Regulatory Enforcement Fairness Act (SBREFA)
>
> Enacted in 1996, the SBREFA gives small businesses a voice in the regulatory review process at the federal level. Under its terms, the Small Business Administration and Occupational Safety and Health Administration must convene groups of small business leaders to review proposed rules, giving input on the impact to small businesses.
>
> These types of small business review processes have been embraced by many states. However, their overall use and scope "varies from state to state." (Shapiro, 2011)

Between 1995 and 2016, federal government agencies published 88,127 final rules to date or 15 rules every working calendar day. As required by the Regulatory Flexibility Act (RFA), federal agencies have identified 15,458 final rules that have negative effects on small businesses.[52]

In addition to federal regulations, small businesses have to deal with additional layers of state and local regulations throughout the business life cycle. On a daily basis, small businesses have to navigate the red tape of state and local governments to start a business, apply for a business license, hire employees, pay taxes, enforce contracts, operate a business, and close a business. The cost burdens and complexity of state and local regulations vary across states, counties, cities, and industries.

At the federal level, in addition to facing a large variety of departments, agencies, and sub-agencies empowered to regulate business, entrepreneurs face a growing regulatory infrastructure. Between 2000 and 2016, the federal government budget for regulators increased by nearly 93%. Spending on economic regulation increased by 108%.[53] The U.S. economy grew by only 32% during the same time frame.[54] Small business owners interviewed for this project unanimously agreed that dealing with the government has become much more difficult in recent years.[55] Reining in legislation that affects small business has some utility in curbing the growth of regulation, but it is not sufficient. In 2014, federal government agencies issued 3,554 new regulations related to 224 new laws enacted by Congress. That's a pace of 16 new regulations for every new law.[56]

When added together, the overall scope of the federal regulatory code is daunting. While not every regulation applies to every business, the vast number of rules, regulations, and proposed changes and public notices is massive. In 2013, the *Federal Register* containing all these rules and regulations was 175,496 pages in length,[57] approximately the same length as 122 combined copies of Tolstoy's *War and Peace*.[58] For comparison, in 1953, the *Federal Register* checked in at 18,464 pages. Over those 60 years, the federal regulatory code increased in size by approximately 850%, while the U.S. population increased by 97.6%.

Chamber officials noted this expansion of federal regulations when surveyed. Some seventy-nine percent of respondents reported that federal regulations have become “more” or “much more” impactful over the past several years (Table B2). This compares with 66.1% who felt that the effect of state government regulations had increased, and only 26.8% who reported that impacts from local regulations had increased. In the case of only one level of government (state regulations) did more than 10% of respondents (12.5%) feel that the impact of regulations had decreased over the past several years. The vast majority felt that the impact of regulations had either increased or stayed the same for all three levels of government.

Occupational licensing, often falling under the scope of state and local governments, has also been on the rise, creating barriers to small business creation. According to research released in 2015 by the Kauffman Foundation, “29% of jobs require a government-issued license—a dramatic increase from just forty years ago when only 10% of workers were licensed.”[59]

As regulations increase in number, their accumulation may begin to influence the ability of businesses, small and large, to innovate and grow. In the words of economist Michael Mandel, each regulation acts as a “pebble in a stream.” While “no single regulation or regulatory activity is going to deter innovation by itself, just like no single pebble is going to affect a stream … if you throw in enough small pebbles, you can dam up the stream.”[60]

A Complex Bureaucracy of Enforcement Agencies

In addition to a multitude of regulations, small businesses must account for regulations from many different departments and authorities at the federal level. As a result, dealing with the government can be complex and daunting for businesses of any size, let alone small businesses with limited capacity to work through red tape. As of 2015, there were 60 agencies in the federal government and between 89 and 430 departments, agencies, and sub-agencies depending on how they are classified and counted.

As part of the Contract with America, Congress authorized an ombudsman at the Small Business Administration to help small businesses navigate enforcement challenges throughout the entire federal government. According to the SBA, formal appeals to this office for assistance in dealing with federal regulatory enforcement rose 65% between 2012 and 2014.[61] While limited in scope, the caseload and inquiries received by the SBA’s Office of the Ombudsman offer some insight into areas of the government that present challenges to small businesses. According to the SBA, the top five agencies for case submissions were as follows:

- Centers for Medicare and Medicaid Services
- Citizen and Immigration Services
- Food and Drug Administration
- Internal Revenue Services
- Small Business Administration

The office also gives yearly grades to each agency based on its “responsiveness to small business concerns, the quality of those responses, and compliance with the Small Business Regulatory

Enforcement Fairness Act."[62] The majority of agencies received a grade of A or B in 2014. While SBA's efforts shed some light on the challenges faced by small businesses, the volume of complaints may not decrease until there is an attitudinal change by regulators and enforcement personnel on how they approach small businesses.

Multiple Levels, Multiple Challenges

State and Local Regulations

Research on the economic impact of state and local regulations on small businesses is relatively limited in scope. While "there is no question that state and local controls have a significant impact on businesses and local economies," overall knowledge of the scope of that impact is lacking.[63] Some states are beginning to require economic impact assessments for certain classes of regulations,[64,65] but measuring the overall economic cost of the multitude of regulations enacted by tens of thousands of state, local, and special governing units represents a major challenge. In addition to a lack of information about costs of regulation, the process of state and local regulation is less studied than that of the federal level.[66]

There is evidence, nevertheless, that regulation by local levels of government has major ramifications on vast swaths of the economy. According to research published in 2004, nearly "20% of the American economy is directly regulated by states."[67] While the overall impact of local government regulation is less clear, its significance cannot be dismissed. According to 2013 data from the Tax Policy Institute, nearly 14% of government tax receipts are collected by local governments. When combined with transfers from federal and state governments, local governments in the United States had nearly $1.2 trillion at their disposal in 2013 to implement policy and enforce rules and regulations, nearly a quarter of total government receipts.[68] Tasked with implementing and enforcing many of the regulations that affect small businesses on a day-to-day basis, including permitting, zoning, law enforcement, and collection of property and sales taxes, the regulatory impact of local government on small business is real and substantial.

Some economic research has been done at the state level. The Pacific Research Institute's *50-State Small Business Regulation Index*[69] identifies 14 specific state regulations that create burdens for small businesses across 50 states: (1) workers compensation insurance, (2) unemployment insurance, (3) short-term disability insurance, (4) minimum wage, (5) expanded family medical leave, (6) right-to-work, (7) occupational licensing, (8) land use, (9) energy, (10) tort liability costs, (11) regulatory flexibility, (12) telecommunications, (13) startup and filing costs, and (14) alcohol control.

The Small Business & Entrepreneurship Council's (SBE's) *Small Business Policy Index* ranks states according to 55 different regulatory, tax, and government spending policy measures.[70] The report's author, Raymond J. Keating, concluded in its 2017 edition that "economic growth and population growth are faster in the top half of the states ranked on the *Index* compared to the bottom half. In terms of people moving among the states, those ranking in the bottom half on the *Index* lose significant population to the states ranked in the top half."

A study released in 2009 by researchers at California State University, attempting to assess the economic effects of state government regulations in the Golden State found "that the total cost of regulation to the State of California—direct, indirect, and induced—is $492.994 billion" as of 2007. At this level, the cost of regulations equaled almost a third of the state's gross product and resulted in an employment loss of 3.8 million jobs, which is a 10th of the state's population.[71] The researchers argued that this worked out to a total cost of regulation of $134,122.48 per small business in California in 2007.

A Study of Major State and Local Regulations

Minimum Wage Laws
In July 2009, the federal minimum wage increased to $7.25 per hour for covered nonexempt employees. While 27 states applied the federal minimum wage to their state laws, 23 others set their minimum wages higher than $7.25 per hour. The minimum wage premiums in 2014 were as high as 38% in California and Massachusetts ($10.00 per hour) and about 3.0% in Maine and New Mexico ($7.50 per hour). Coupled with federal and state regulations, small businesses have to comply with another layer of local regulations since counties can create more stringent minimum wage requirements. In 2014, seven counties (Berkeley, San Jose, and San Francisco in California; Montgomery and Prince George's in Maryland; and Bernalillo and Santa Fe in New Mexico) set their minimum wages higher than their state levels (Table A4). As of the end of 2016, 24 localities have raised their minimum wages above their state levels. Moreover, 20 states and 23 localities (including 6 new localities) scheduled raising their minimum wages in 2017.

Studies have shown the negative consequence of minimum wage hikes on job creation and economic activities. The Employment Policies Institute calculated that a 10% increase in minimum wages reduces small business employment between 0.8% and 1.2% and consequently negatively affects sales.[72] Applying the average of the estimates (i.e., a 1% reduction in employment in small businesses for every 10% increase in minimum wages) and official small business statistics, stringent state and local minimum wage laws reduce the number of jobs by roughly 0.5 million direct jobs (the equivalence of 1.5% of small business jobs) a year and forgo $22.6 billion in annual wages and $66.3 billion in annual GDP in these 30 states, counties, and cities. Using the government official economic multipliers published by the Bureau of Economic Analyses, stringent state minimum wage laws reduce more than 1.4 million direct and indirect jobs, $50.3 billion direct and indirect wages, and $130.6 billion GDP in 2014.

Workers Compensation and Unemployment Insurance Laws
Small businesses are required to pay workers compensation insurance and unemployment insurance for their employees. The workers compensation insurance is a state-designed employee benefit program for workers who are injured on the job. Unemployment insurance is a joint federal-state program to provide benefits to qualified unemployed workers. Workers compensation insurance and unemployment insurance are direct costs to small businesses to hire workers. The insurance costs to small businesses vary from $657 per worker in North Dakota to as high as $2,340 per worker in Alaska (Table A5). Small businesses in all 50 states pay nearly $71 billion per year for workers compensation and unemployment insurance combined (Table A6).Applying economic multipliers published by the U.S. Bureau of Economic Analysis, the total direct and indirect impacts of workers compensation and unemployment insurance are nearly 4.7 million jobs, $157.5 billion wages, and $414.5 billion GDP per year. While we cannot assume businesses are to not pay for such forms of insurance, estimates are nevertheless useful at showing the scale of total costs.

State Occupational Licensing
State occupational licensing requires individuals to meet state standards in order to provide their services legally in that state. Occupational licenses are awarded by government agencies while most certifications are issued by nongovernmental certification bodies. The share of licensed workers varies widely across states, ranging from 12.4% in South Carolina to 33.3% in Iowa. More than 1,100 occupations are regulated in at least 1 state and around 60 are regulated in all 50 states.[73] Education, health care, and financial services are the top three industries that require licenses and certificates to

practice. State occupational licensing has nearly tripled in the past 50 years. Using the latest Census data, we found that nearly 12.5 million or 21.7% of small business workers require a license to practice a trade or a profession (Table A7).

Studies have shown the negative ramifications of licensing on employment, job matches, and customer benefits. A 2015 joint study of the Department of Treasury, the Council of Economic Advisers, and the Department of Labor found that the current licensing regime in the United States creates substantial costs, and often the requirements for obtaining a license are not in sync with the skills needed for the job. This study shows that licensing requirements raise the price of goods and services, restrict employment opportunities, and make it more difficult for workers to take their skills across states.[74] Other empirical studies have estimated licensing produces a 15% wage premium in the labor market and reduces labor market growth by 20%.[75] Applying the existing research findings and latest available 2014 data of small business, state licensing regulation directly reduces more than 0.9 million small business jobs that earned $39.3 billion in wages and contributed $116.9 billion to U.S. GDP. Using the economic multipliers published by the U.S. Bureau of Economic Analysis, total direct and indirect negative effects of state occupational licensing regulation total more than 2.6 million jobs, $86.8 billion in wages, and $227.9 billion in GDP per year.

Local Business Regulations

Business regulations take place throughout the entire life cycle of small businesses from opening to closing. Like minimum wages, business regulations could vary substantially across counties and cities within a state. A city may have additional regulations or require additional procedures or fees to complete a similar task in other counties and cities.

The U.S. Chamber of Commerce's *Regulatory Climate Index* assesses five areas of regulations (starting a business, obtaining construction permits, registering properties, paying taxes, and enforcing contracts) across 10 U.S. cities to measure the regulatory burdens on small businesses to do business. Regulatory burdens consist of three factors: time, number of procedures, and monetary fees. The report shows that it could take as few as 4 procedures and $70 to start a business in San Francisco and as high as 7 procedures and $1,306 in New York City. Local regulations are also seen to be different across cities in the same state. A small construction company needs 14 procedures, 105 days, and $85,841 to obtain construction permits in Los Angeles, while it needs 19 procedures, 184 days, and $108,063 to obtain the same permits in San Francisco. Additional county and city taxes are another layer of local regulatory cost burdens for small businesses.

Table A8 reproduces findings from the U.S. Chamber of Commerce Foundation's *Regulatory Climate Index* of 10 U.S. cities in 2014. These figures represent direct costs and fees paid directly to the government or service providers that are required by local laws. In addition to costs and fees, small businesses have to spend time to complete the paper work to comply with the regulations.[76]

Data for Reform

Legislators and regulators recognize the burden that regulations have on small businesses, as reflected in the Regulatory Flexibility Act (RFA) of 1980, which was amended by the Small Business Regulatory Enforcement Fairness Act of 1996 and the Dodd-Frank Wall Street and Consumer Protection Act of 2010. The act requires federal agencies to consider and analyze the economic effects of their regulatory proposals on small businesses when there is likely to be significant economic consequences on a substantial number of them.[77]

Similarly, several states adopted the RFA to formally assess the impacts of state regulations on small businesses. If the regulatory cost burdens are significant, the agencies are expected to offer regulatory relief to small businesses. Currently, 40 states have adopted regulatory flexibility legislation to establish a process of analyzing and mitigating the impacts of state regulation on small businesses. Although state regulatory flexibility programs differ widely in many aspects, one important difference is the size of the businesses that qualify for regulatory flexibility.

While the SBA broadly defines small businesses as firms employing fewer than 500 employees,[78] the states with regulatory flexibility acts use widely varying firm sizes to define small businesses (Table A9). Only three states use the 500 employee threshold for determining which businesses have their regulatory costs analyzed. The rest examine a smaller subset of firms employing anywhere from 25 to 150 employees or conduct no RFA analysis at all.

Developing Alternative Models to Measure the Impact of State and Local Regulation

Data collected at the federal level by Office of Information and Regulatory Affairs (OIRA) as well as due to federal executive actions have provided researchers with valuable information about the size and scope of the federal regulatory impact on businesses of all sizes. But scholarship on state and local regulations is more limited in development. Researchers such as Patrick McLaughlin of George Mason University and Russell Sobel of The Citadel have worked to make use of alternative sources of information to shape a better understanding of the regulatory state at local levels of government. Others, such as the aforementioned Raymond J. Keating at the Small Business & Entrepreneurship Council, have aggregated numerous measures on taxes, regulatory costs, minimum wages, workers' compensation costs, and more to broadly gauge how state and local governments treat small businesses.[79] In many cases, the best solution available to regulatory researchers is the use of proxy measures, attempting to make use of available data to draw indirect comparisons between the states.

Litigation

One of the more interesting proxies adopted to measure the scope of state regulatory systems is a measure of litigation surrounding regulation. Research conducted by Sobel and Dove examined "the number of regulations per capita that are challenged in each state's supreme court," and "the number of regulations per capita that are reversed or overturned by a state supreme court."[80] By comparing the number of regulations challenged with the overall number of regulations in a state, a sense of the scope of potential overregulation can be attained. The number of overturned or reversed regulations can give a read of how often a state government has been caught in a position of regulatory overreach.

Unfortunately, the data are outdated. The data used by Sobel and Dove date back to 1995 to 1998 and were collected as part of Rice University's State Supreme Court Data Project.[81] The database contains more than 21,000 decisions, but it offers little utility for understanding current state small business regulatory challenges due to its age.

Regulations Issued Per Capita

The number of new regulations issued per capita also offers a potential proxy to measure the growth and scope of state regulation. Unfortunately, this represents another older, limited dataset. Collected in

2007, the data are limited to 28 states "that provided access to final regulations online."[82] During 2007, these states issued more than 8,900 rules. If the same level of activity were extrapolated across the unrepresented states, the total "number of rules adopted would be close to 16,000."[83]

The research found that states with more regulatory procedures designed to limit the scope of regulation "*did not* issue fewer rules."[84] According to the analysis, the procedure that had the greatest significance in reducing regulation was a "requirement that agencies complete their rulemaking in a prescribed period of time." Executive review by governors had mixed results, depending on the party of the governor. It seems clear that there are impacts to procedural controls on regulation, although it seems that the results are mixed at best and are often influenced by politics rather than process.

Enforcement Budgets
As discussed, the U.S. Census offers some access to data on regulatory enforcement spending by states and local governments. This offers some utility in measuring the relative size and scope of the regulatory state and its impact on small business creation and growth. However, the datasets provided offer a limited view of the overall regulatory landscape, classifying what would be considered "regulatory processes" and agencies under different categories, creating problems in identifying the true scope on a state-by-state basis.

Looking to the Future

One powerful model introduced for measuring the scope of regulation at the federal level is Mercatus' RegData system, which "annually quantifies federal regulations by industry and regulatory agency."[85] The system uses text analysis of the *Code of Federal Regulations* "to measure how frequently a part of the CFR targets each specific industry in the economy."[86] This includes word counts and restriction counts. The text analysis covers multiple years dating back to 1997, offering a way to gauge the changing level of regulation longitudinally by industry and department.

The RegData system is limited to the federal government, but researchers at Mercatus and George Mason University are working on ways to undertake text analysis of state-level regulatory codes making use of a similar methodology.[87] The new system has yet to be launched, but it may offer a valuable new tool to measure the relative levels of regulation state by state, helping make comparisons between states and industries at the state government level possible. Each state code has its differences, making interstate comparisons difficult. Yet the new state RegData tools will offer a way to examine state regulation with a level of data-driven rigor that is not currently available.

The Rationale for State and Local Reform

Improving Efficiency and Effectiveness

While some cities and other local governments have taken steps to improve their regulatory processes, the sorts of challenges identified in this report are likely common issues throughout the nation.

Improving these processes, if only by making them timelier, can have positive benefits for small business climate in a city. In Minneapolis, Minnesota, waits for alcohol and restaurant permits had reached peaks of 79 and 42 days, respectively. Concerted efforts led by the city's mayor and department leaders reduced wait times to 31 days for liquor licenses and 14 days for restaurant licenses by 2011.[88] Coupled with deregulatory reforms at the state level, this focus on regulatory efficiency and expediency has helped unleash a craft beer boom in the city of Minneapolis, creating jobs and enhancing vibrancy in the city's entertainment districts.[89]

Recognizing these effects, some state and local governments have begun to streamline processes and are using data to measure their progress in improving their regulatory systems (Table B3). In some cases, governments are embracing open access to data related to civic processes including regulations, allowing for more public and researcher review of the state of civic governance in cities throughout the nation. Today, 40 states and nearly 50 U.S. cities and counties have launched open data platforms, with more cities providing access to such data and information on a less centralized level.[90]

In addition to these government-led efforts, private companies have stepped to the plate to work with local and state governments to harness data as part of their efforts to improve civic performance, including regulatory processes. One such platform, Accela,[91] works with more than 2,200 local and state government clients around the nation, accessing a wide variety of regulatory data.

Much of this information is proprietary, although Accela does share success stories that offer insight into the negative impact of regulations on small businesses on the civic level:[92]

- In Albuquerque, New Mexico, hundreds of air permits were going unissued within the regulated period, leaving businesses waiting for approval.
- In Baltimore County, Maryland, challenges in processing code enforcement and inspections using antiquated systems left businesses and citizens facing delays in addressing complaints and receiving permits.
- Businesses in El Paso, Texas, seeking commercial building permits were often left waiting for three months. Commercial plan reviews were taking an average of 15 days.
- Lincoln, Nebraska, contractors faced long waits for permits as the city's outdated information management system was overwhelmed by increases in requests as the city grew.
- In McAllen, Texas, commercial construction permits could take up to two months to process.
- Lacking online access to permits and other regulatory processes, business owners and citizens in Palo Alto, California, were forced to stand in lines with wait times more than two hours just to ask questions and obtain the proper paperwork.

Many of the challenges outlined here will require small business to take a seat at the table in working with government officials and lawmakers to have their voices heard. Building strong, transparent ties between regulators and the regulated may help ensure that the needs of small businesses are met when rules are promulgated and implemented by lawmakers and bureaucrats. Many states have adopted the idea of small business review advisory councils to help shape a more business-friendly regulatory environment while mitigating the impact of new regulations. This can be a step in the right direction, but it requires building connections between the public and private sectors and following through on guidance received. Communication and collaboration are key.

Half of surveyed chamber officials agreed or strongly agreed that *local* government and small business in their region work together effectively (Table B4). Local government, being the level of government that is closest to the people, may be better able to build effective working relationships with business and vice versa. Small business owners and local chamber officials are more likely to be able to contact and interact with local government officials, who may be their friends and neighbors. State government, while closer to small businesses than the federal government, may still maintain some level of distance between those making the regulations and those impacted.

Embracing New Ideas From the Bottom Up

Many state and local agencies are facilitating direct interactions with small business owners. One excellent example is KCSourcelink in Kansas City, which is working to help new entrepreneurs deal with regulations on a local basis.[93] At the state level, Utah has been a leader in reforming state government with heavy input from state business leaders. Efforts there included a public-private collaboration resulting in the reform of nearly 300 state rules affecting businesses.[94] Many other states and localities are taking a one-stop-shop approach to streamlining the interactions of small businesses with government agencies.

Identifying Areas and Partners for Action

In the absence of hard data, survey data from experts and practitioners in the field offer some insight into the ramifications of regulation and areas where groups seeking to improve the small business regulatory climate may focus their activities.

Chamber officials working with small businesses were asked what small business regulatory outreach and support activities are ongoing in their regions and what value they saw in those activities (Table B5). More than 90% of respondents reported that updates on new and pending regulations, reports on the impact of regulations, and regulatory advisory services were somewhat or very useful to small businesses in their regions. The first two services were widely available, with fewer than one-quarter of respondents reporting that such services were not available to small businesses in their regions. Regulatory advisory services for small businesses, however, were reported to be less accessible, with 54.8% of participating chamber officials saying that small businesses in their regions didn’t have access to such services.

When rated in this manner, regulatory advisory services for small business, support in litigation against regulatory overreach, and model regulatory reform legislation top the list of potential actions that may be taken by small business advocates. By focusing on improving access to these services, stakeholders may be able to improve the suite of services available to small businesses nationwide, supplementing activities already ongoing at the state and local levels.

Partnering for Results

Chamber officials were also surveyed about the level of support provided to small businesses in their regions by a variety of stakeholder groups (Figure B11). Not surprisingly, participants rated local chambers as being the most supportive type of organization in their regions. Other groups rated highly were other small businesses, business and industry associations, and the Small Business Administration. State workers compensation officials were rated the least supportive stakeholder group. State government agencies and nonprofit corporations were rated as neutral or “slightly supportive.”

A Framework for Reform

The Typology of Small Business Regulation

To better assess the impact of and reaction to government regulation at all levels, it is useful to develop a classification of the different types of regulatory action. This typology, built around the what, how, when, and where of government regulations, can serve as a guide to understanding regulatory infrastructure, assessing its scope, and gauging its effects on entrepreneurs.

Type of Regulation

Regulations faced by businesses can be broken down into three classes based on what a specific regulation does. Each of these types of regulatory action has different aims and thus different effects on small businesses. According to work done by the Organisation for Economic Co-operation and Development (OECD), the classes can be defined as follows:

Economic regulation is generally intended to improve the efficiency of markets in delivering goods and services. It can include government-imposed restrictions on firm decisions over prices, quantity, service, and entry and exit.

Social regulation is intended to protect the well-being and rights of society at large. It can include protection of the environment, health and safety in the workplace, the rights of workers, and buyers from fraudulent or incompetent behavior by sellers.

Administrative regulation relates to general government management of the operation of the public and private sectors. It can include regulations relating to taxes, business operations, distribution systems, health care administration, and intellectual property rights.[95]

Regulation enforcement is often organized by creating topical agencies, such as environmental, financial, labor and hiring, tax, safety, and occupational licensing.

Process

The process of implementing and enforcing regulations lends itself to another regulatory typology. Government regulators are given varying amounts of latitude and ability to enforce regulations depending on the leadership, rules, and political oversight they work under. Accordingly, regulatory implementation and practice can be seen as changing along three different dimensions:

- *Flexibility* describes the number of implementation paths firms have available for compliance.
- *Information* measures whether a regulation promotes more or less complete information for market participants, including small businesses.
- *Stringency* measures the degree to which a regulation requires compliance innovation and imposes a compliance burden on a firm, industry, or market.[96]

The interplay among these three dimensions will shape how a regulatory regime impacts small businesses, influencing the cost and time required to meet the demands of a regulation.

The methods and veracity of enforcement are of particular concern for small business owners. Small business owners interviewed for this project were nearly unanimous in agreeing that regulators lack flexibility in enforcement and focus more on the letter of the law than the intent of the regulation. State and local chamber officials surveyed were of the same mind, with more than 60% reporting that regulators in their region were more focused on the letter of the law rather than the intent of the regulation (Figure B9).

Stage of Business

Businesses of all sizes face burdens from the regulatory state at multiple stages of their life cycle. These life cycle events include

- Starting up
- Finding a location or expanding locations
- Acquiring financing
- Navigating conflicts, such as contract enforcement
- Going about daily operations of hiring and doing business across borders

In terms of the business cycle, small business owners say that the impact of regulation is highest when opening or expanding a location, getting financing, and hiring new workers.[97]

Level of Engagement

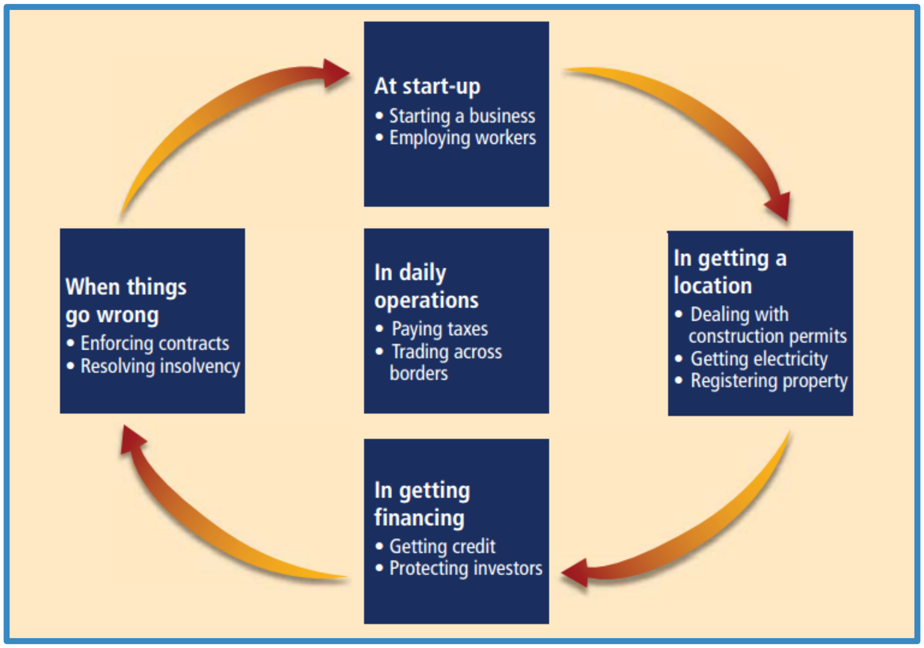
Classifying regulations and potential reforms by domain *where* they take place is a more straightforward exercise. The two key classifications of engagement are level of government and industry.

Levels of Government. Local, state, and federal are the three major levels. Local and state governments include a variety of types and structures, including cities, counties, regional governing authorities, and other special districts with regulatory powers.

Industry. Each industry will have its own set of regulatory agencies overseeing its actions, thereby setting the terms of the regulatory environment in which it operates. Some of the major industries with the highest share of employees in small firms include health care, accommodation and food services, retail trade, and construction.

Environmental regulations may exist at the federal level as the Environmental Protection Agency or at the regional level as a state department of natural resources or a regional water resources board. Similarly, safety regulations vary in impact across industry types. A safety rule may have more intense effects on a manufacturing business than on a professional services firm such as an accounting agency.

Impacts of Regulation on the Small Business Life Cycle[98]



Moving Forward

Embracing a Small Business-Friendly Regulatory Climate

The small business regulatory environment is a large, unwieldy, complex system, with tens of thousands of government personnel at multiple levels involved in setting the rules under which small businesses in America operate. This system, while often designed with positive intentions, can have negative results, both directly and indirectly, that make it difficult for entrepreneurs to survive and thrive.

The regulatory burden for small businesses at the federal level is significant, costing nearly 1 million direct jobs and more than $118 billion in GDP. At the state level, the burden varies considerably, especially for labor regulations, such as minimum wage, workers compensation and unemployment insurance, and occupational licensing. In total, the cost of these select regulations to small businesses exceeds 3 million jobs and nearly $400 billion in GDP. The direct and indirect impacts of the combined federal and state regulations total more than 11 million jobs and nearly a trillion dollars in GDP.

Overall, this regulatory burden hinders economic growth. Reduction in regulation and increased efficiencies between federal, state, and local government requirements can help mitigate the cost burden to businesses and generate economic growth.

In many ways, analysis of the regulatory state in America, particularly at the state and local levels, is flying blind—good, solid data on the impacts and costs of regulations, both big and small, leave reformers and regulators to make decisions without a sound grasp of the real-world implications of their actions. Some officials have taken steps to assess the economic effects of some of their regulatory activities, but there is still a need for more and better data and tools to assess the scope of the regulatory state.

Regulations are rooted in a desire to improve safety and set a fair economic playing field for entrepreneurial competition, but they often serve as a blunt tool toward achieving those ends. By embracing the collection of more data on the effects of regulations, we can, at the very least, give our policymakers, reformers, and regulators more tools to design better government regulations. Connecting small business stakeholders and government officials is critical to addressing the challenges of an overly burdensome regulatory state that is stifling small business growth.

Appendix A

Table A1. Regulatory Cost Burdens of Federal Major Rules, 2015[99]

	Total Costs ($ million)	Costs to Small Businesses ($ million)	Share of Small Businesses Costs (%)
Department of Health and Human Services	$2,687.9	$2,049.1	76.2%
Department of Transportation	1,960.0	1,859.3	94.9
Department of Energy	87.7	20.5	23.4
Environmental Protection Agency	67.2	43.0	64.0
Department of Labor	60.3	31.1	51.6
Total	**$4,863.1**	**$4,003.0**	**82.3%**

Table A2. Economic Impacts of Federal Regulations and Select Major State and Local Labor Regulations on Small Businesses Per Year, 2014 to 2015

	Sum	Federal Regulations	State Minimum Wage Law	State Workers Compensation and Unemployment Insurance	State Occupational Licensing
Negative Annual Direct Effects on Small Businesses					
Jobs	4.0 million	0.9 million	0.5 million	1.7 million	0.9 million
Wages	$172.8 billion	$40.0 billion	$22.6 billion	$71.0 billion	$39.3 billion
GDP	$513.2 billion	$118.2 billion	$66.3 billion	$211.9 billion	$116.9 billion
Negative Annual Direct and Indirect Effects on the U.S. Economy (including small businesses)					
Jobs	11.1 million	2.5 million	1.4 million	4.7 million	2.6 million
Wages	$377.7 billion	$83.1 billion	$50.3 billion	$157.5 billion	$86.8 billion
GDP	$988.3 billion	$215.3 billion	$130.6 billion	$414.5 billion	$227.9 billion

Table A3. Concentration of Employment at SMEs and Overall Size in the Economy

Industry Sectors[100]	Percentage of Jobs at Small and Medium-Size Enterprises (SMEs)	Total Sector Employment (All Enterprise Sizes)	Share of Total U.S. Private Employment (%)	Share of All U.S. SME Employment (%)
Agriculture, Forestry, Fishing and Hunting	86.0%	154,496	0.1%	0.2%
Other Services (except Public Administration)	85.9%	5,282,688	4.5%	8.0%
Construction	82.7%	5,470,181	4.6%	8.0%
Real Estate, Rental and Leasing	69.0%	1,972,105	1.7%	2.4%
Arts, Entertainment, and Recreation	62.3%	2,112,000	1.8%	2.3%
Accommodation and Food Services	60.1%	12,395,387	10.5%	13.1%
Professional, Scientific, and Technical Services	58.8%	8,275,350	7.0%	8.6%
Wholesale Trade	58.6%	5,908,763	5.0%	6.1%
Private Sector Average	*48.0%*			
Health Care and Social Assistance	45.8%	18,598,711	15.7%	15.0%
Manufacturing	44.9%	11,276,438	9.5%	8.9%
Educational Services	43.6%	3,513,469	3.0%	2.7%
Mining, Quarrying, and Oil and Gas Extraction	39.4%	732,186	0.6%	0.5%
Transportation and Warehousing	37.0%	4,287,236	3.6%	2.8%
Retail Trade	35.7%	15,023,362	12.7%	9.5%
Administrative and Support and Waste Management and Remediation Services	34.6%	10,185,297	8.6%	6.2%
Finance and Insurance	31.6%	6,063,761	5.1%	3.4%
Information	26.7%	3,266,084	2.8%	1.5%
Utilities	17.3%	638,575	0.5%	0.2%
Management of Companies and Enterprises	12.2%	3,098,762	2.6%	0.7%
Total Private Sector		***118,266,253***		

Table A4. Impacts of Minimum Wages on Small Businesses in 30 States, Counties, and Cities, 2014[101]

State	No. of Small Business Workers	Minimum Wage ($)	Minimum Wage Differential (%)
Alaska	142,761	$7.75	6.9%
Arizona	995,671	7.90	9.0
California	6,806,594	9.00	24.1
Berkeley City	21,722	10.00	37.9
San Francisco County	281,977	10.74	48.1
San Jose City	170,519	10.15	40.0
Colorado	1,059,196	8.00	10.3
Connecticut	732,750	8.70	20.0
Delaware	176,837	7.75	6.9
Florida	3,182,562	7.93	9.4
Illinois	2,441,995	8.25	13.8
Maine	283,505	7.50	3.4
Maryland		*7.25*	*0.0*
Montgomery County	216,116	8.40	15.9
Prince George's County	126,284	8.40	15.9
Massachusetts	1,446,082	8.00	10.3
Michigan	1,797,495	8.15	12.4
Minnesota	1,230,362	8.00	10.3
Missouri	1,125,909	7.50	3.4
Montana	239,910	7.90	9.0
Nevada	450,104	8.25	13.8
New Jersey	1,764,993	8.25	13.8
New Mexico	336,684	7.50	3.4
Bernalillo County	136,745	8.50	17.2
Santa Fe County	25,263	10.66	47.0
New York	3,968,482	8.00	10.3
Ohio	2,134,290	7.95	9.7
Oregon	801,666	9.10	25.5
Rhode Island	225,671	8.00	10.3
Vermont	156,243	8.73	20.4
Washington	1,299,824	$9.32	28.6%

Table A5. Annual Workers Compensation and Unemployment Insurance Costs Per Small Business Worker, 2014[102]

State	Workers Compensation Insurance Costs Per Small Business Worker ($)	Unemployment Insurance Costs Per Small Business Worker ($)
Alabama	$656.7	$188.7
Alaska	1,342.6	997.0
Arizona	611.0	148.9
Arkansas	352.1	335.8
California	1,645.0	378.2
Colorado	650.6	290.6
Connecticut	1,435.6	480.2
Delaware	1,018.8	277.8
Florida	701.9	270.0
Georgia	689.0	161.4
Hawaii	675.3	445.3
Idaho	662.3	458.0
Illinois	1,074.9	548.9
Indiana	384.7	279.4
Iowa	678.1	299.4
Kansas	575.4	311.9
Kentucky	524.0	312.3
Louisiana	879.2	145.9
Maine	763.9	309.1
Maryland	759.7	259.4
Massachusetts	608.0	571.7
Michigan	675.7	538.9
Minnesota	803.5	355.3
Mississippi	511.6	247.7
Missouri	718.7	185.1
Montana	738.5	394.3
Nebraska	638.5	129.1
Nevada	487.7	445.1
New Hampshire	944.9	316.4
New Jersey	1,333.2	567.3
New Mexico	707.7	284.5
New York	1,391.0	354.1
North Carolina	675.1	332.1
North Dakota	380.6	276.8
Ohio	670.8	258.3
Oklahoma	956.6	255.1
Oregon	515.0	695.5
Pennsylvania	807.9	484.7
Rhode Island	809.9	610.5
South Carolina	676.2	294.1

South Dakota	623.0	130.6
Tennessee	759.4	183.0
Texas	700.1	426.2
Utah	502.1	318.1
Vermont	884.0	607.0
Virginia	520.6	209.1
Washington	872.2	745.7
West Virginia	450.3	361.5
Wisconsin	720.6	446.6
Wyoming	711.0	484.8

Table A6. Annual Workers Compensation and Unemployment Insurance Costs to Small Businesses, 2014[103]

	Workers Compensation Insurance Costs to Small Businesses ($ million)	Unemployment Insurance Costs to Small Businesses ($ million)	Total Workers Compensation and Unemployment Insurance Costs to Small Businesses ($ million)
Alabama	$458.3	$145.7	$604.0
Alaska	191.7	142.3	334.0
Arizona	608.4	148.3	756.6
Arkansas	157.5	161.6	319.0
California	11,196.6	2,573.9	13,770.5
Colorado	681.4	307.8	989.2
Connecticut	1,052.0	351.9	1,403.8
Delaware	179.0	49.1	228.1
Florida	1,970.8	859.2	2,830.0
Georgia	996.6	250.4	1,247.1
Hawaii	180.8	119.3	300.1
Idaho	194.6	134.6	329.2
Illinois	2,610.1	1,340.3	3,950.4
Indiana	450.3	330.6	780.9
Iowa	424.4	192.0	616.4
Kansas	341.8	188.4	530.2
Kentucky	357.6	214.6	572.2
Louisiana	796.4	132.8	929.2
Maine	214.3	87.6	301.9
Maryland	844.9	289.5	1,134.4
Massachusetts	879.3	826.7	1,706.0
Michigan	1,136.2	968.7	2,104.9
Minnesota	974.8	437.2	1,412.0
Mississippi	195.4	107.1	302.5
Missouri	723.9	208.4	932.3
Montana	174.6	94.6	269.2
Nebraska	248.7	51.7	300.4
Nevada	218.5	200.3	418.8
New Hampshire	274.0	91.7	365.7
New Jersey	2,353.1	1,001.3	3,354.5
New Mexico	219.0	95.8	314.8
New York	5,489.3	1,405.1	6,894.4
North Carolina	1,001.0	529.1	1,530.1
North Dakota	78.4	58.0	136.4
Ohio	1,431.7	551.3	1,983.0
Oklahoma	604.0	180.9	784.9
Oregon	412.9	557.5	970.4

Pennsylvania	1,971.3	1,192.3	3,163.6
Rhode Island	182.3	137.8	320.0
South Carolina	469.5	223.1	692.6
South Dakota	126.2	27.1	153.3
Tennessee	723.8	192.5	916.3
Texas	2,550.3	1,940.4	4,490.7
Utah	269.0	171.9	440.9
Vermont	135.9	94.8	230.7
Virginia	729.2	310.7	1,039.9
Washington	1,070.1	969.3	2,039.4
West Virginia	122.7	104.2	226.9
Wisconsin	831.6	549.5	1,381.1
Wyoming	97.0	66.1	163.1
All 50 States	**$49,600.7**	**$21,365.4**	**$70,966.0**

Table A7. Licensed Workers in Small Businesses by State, 2014[104]

State	Percent Share of Workforce Licensed	Number of Licensed Workers in Small Businesses
Alabama	20.9%	161,393
Alaska	25.5	36,404
Arizona	22.3	222,035
Arkansas	20.2	97,196
California	20.7	1,408,965
Colorado	17.2	182,182
Connecticut	24.7	180,989
Delaware	15.3	27,056
Florida	28.7	913,395
Georgia	15.7	243,591
Hawaii	26.6	71,234
Idaho	22.8	67,008
Illinois	24.7	603,173
Indiana	14.9	176,297
Iowa	33.3	213,549
Kansas	14.9	90,027
Kentucky	27.8	191,068
Louisiana	22.3	203,012
Maine	20.7	58,686
Maryland	17.2	191,952
Massachusetts	21.3	308,015
Michigan	20.6	370,284
Minnesota	15.0	184,554
Mississippi	23.1	99,845
Missouri	21.3	239,819
Montana	21.3	51,101
Nebraska	24.6	98,524
Nevada	30.7	138,182
New Hampshire	14.7	42,617
New Jersey	20.7	365,354
New Mexico	25.9	87,201
New York	20.7	821,476
North Carolina	22.0	350,543
North Dakota	26.6	55,747
Ohio	18.1	386,306
Oklahoma	25.0	177,280
Oregon	26.1	209,235
Pennsylvania	20.2	496,864
Rhode Island	14.5	32,722
South Carolina	12.4	94,031
South Dakota	21.8	45,145
Tennessee	23.1	242,999

Texas	24.1	1,097,332
Utah	23.8	128,584
Vermont	16.8	26,249
Virginia	17.2	255,481
Washington	30.5	396,446
West Virginia	25.8	74,358
Wisconsin	18.4	226,385
Wyoming	21.2	28,912
Total	**21.7%**	**12,470,802**

Table A8. Costs of Doing Business in Select Cities, 2014

	Starting a Business ($)	Dealing with Construction Permits ($)	Registering Property ($)	Taxes Paid ($)	Enforcing Contracts ($)
Atlanta	$150	$26,658	$10,538	$208,880	$333
Boston	525	32,885	31,365	225,285	240
Chicago	900	29,830	55,888	248,570	543
Dallas	300	9,900	19,763	208,880	325
Detroit	150	40,218	40,355	174,210	205
Los Angeles	70	85,841	28,318	207,510	545
New York City	1,306	32,060	249,383	275,766	880
Raleigh	155	12,927	13,391	198,510	470
San Francisco	70	108,063	35,888	255,337	500
St. Louis	$155	$31,764	$3,666	$213,656	$205

Table A9. Definitions of Small Business in State Regulatory Flexibility Analysis across States, 2014[105]

State	No. of Small Business Employment Definition in RFAs	No. of Small Business Workers Covered by RFAs	No. of Small Business Workers	Percent Share of Small Business Workers Covered by RFAs (%)
Delaware, Iowa, Maine, North Dakota, South Dakota, Vermont, Wisconsin (7)	25	1,133,760	2,904,889	39.0%
California, Illinois, Louisiana, New Mexico, Oklahoma, Oregon, Pennsylvania, Tennessee, Washington, West Virginia (10)	50	9,620,037	17,106,126	56.2
Connecticut, Massachusetts, Rhode Island (3)	75	1,521,341	2,404,503	63.3
Alaska, Arizona, Arkansas, Georgia, Hawaii, Indiana, Mississippi, Missouri, New Jersey, New York, South Carolina, Texas, Utah (13)	100	12,492,148	17,765,582	70.3
Florida, Kentucky, Michigan, Nevada (4)	150	4,855,752	6,117,455	79.4
Colorado, Ohio, Virginia (3)	500	4,678,838	4,678,838	100.0
Alabama, Idaho, Kansas, Maryland, Minnesota, Montana, Nebraska, New Hampshire, North Carolina, Wyoming[106] (10)	No RFA requirements	0	6,676,758	0.0
Total		**34,301,876**	**57,654,151**	**59.5%**

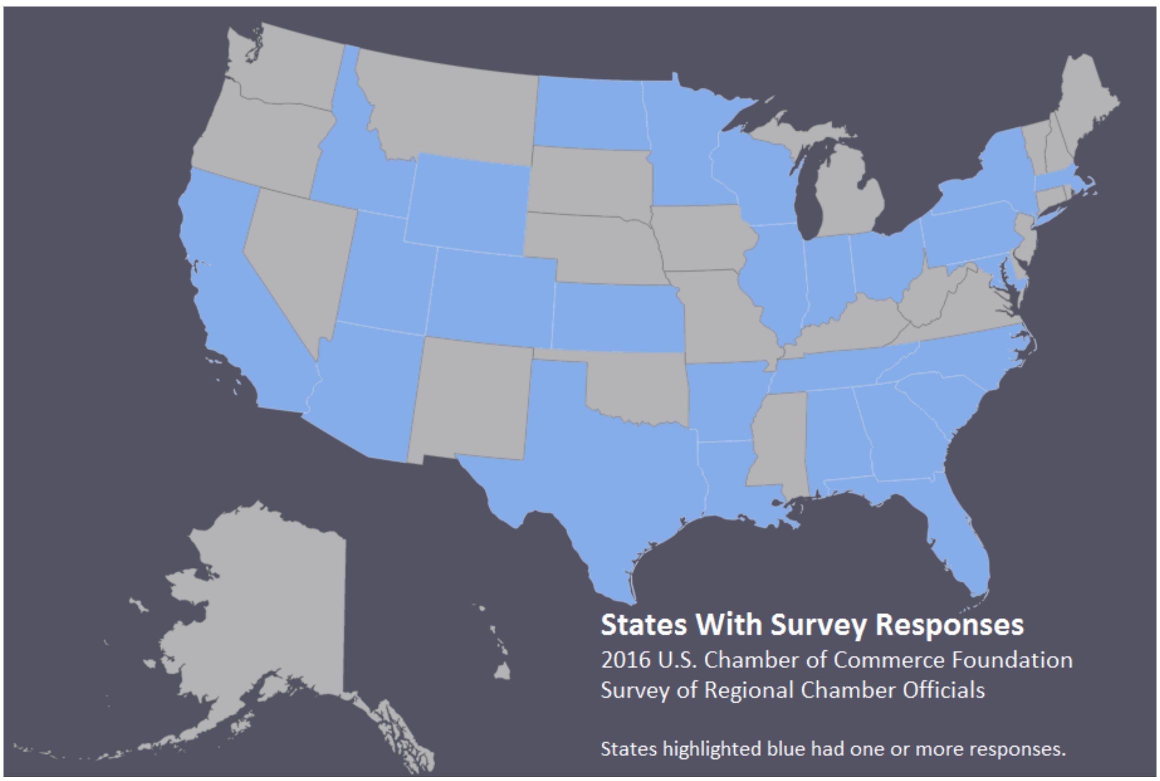
Appendix B: Survey of Chambers

To better understand the shape and scope of regulatory challenges facing small business in America, a survey of nationwide chamber officials was included in the research for this report. While this survey was unscientific, and open to any chamber official who wanted to take part, this self-selected sample still offers insight into the challenges facing small business at the grassroots level.

The Sample

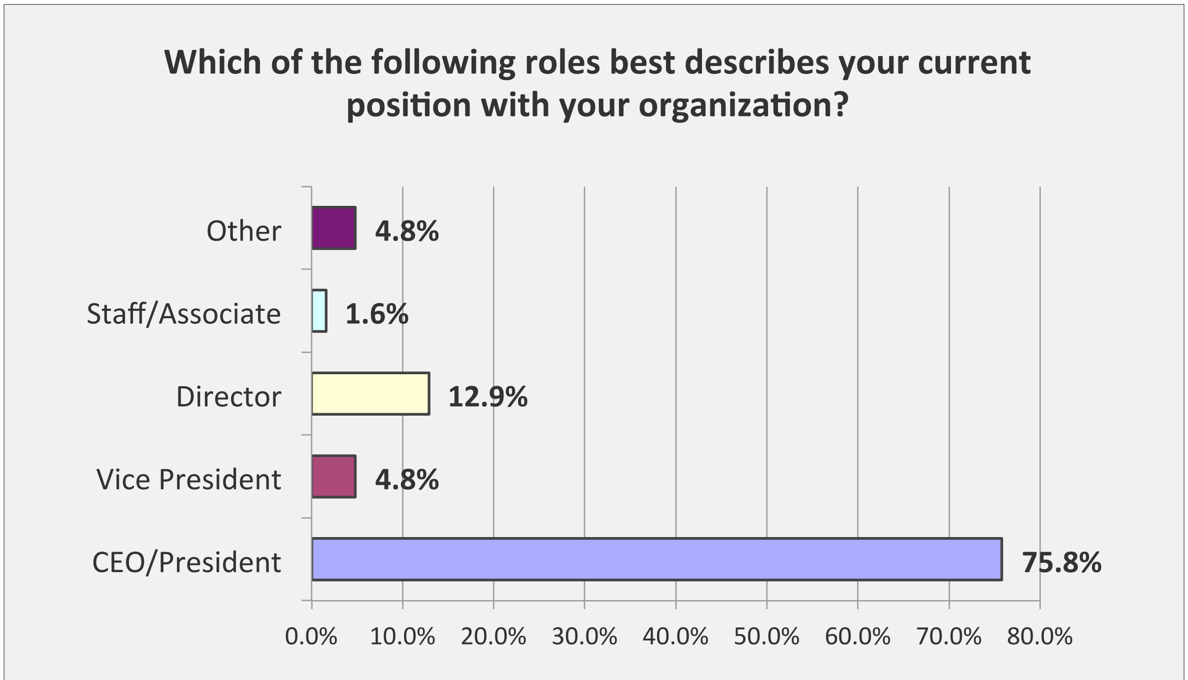
Invitations to participate in the survey were extended to local, state, and regional chamber officials and small business advocates via email by the U.S. Chamber of Commerce Foundation, its regional affiliates, and Praxis Strategy Group.

Chamber officials and small business advocates from 26 states took part in the survey, with multiple responses from 15 states.



Of the 64 individuals who participated in the survey (n = 64), nearly **97% work directly with small businesses and entrepreneurs**, offering a pool of responses informed by day-to-day interactions with businesses dealing with the challenges of regulation.

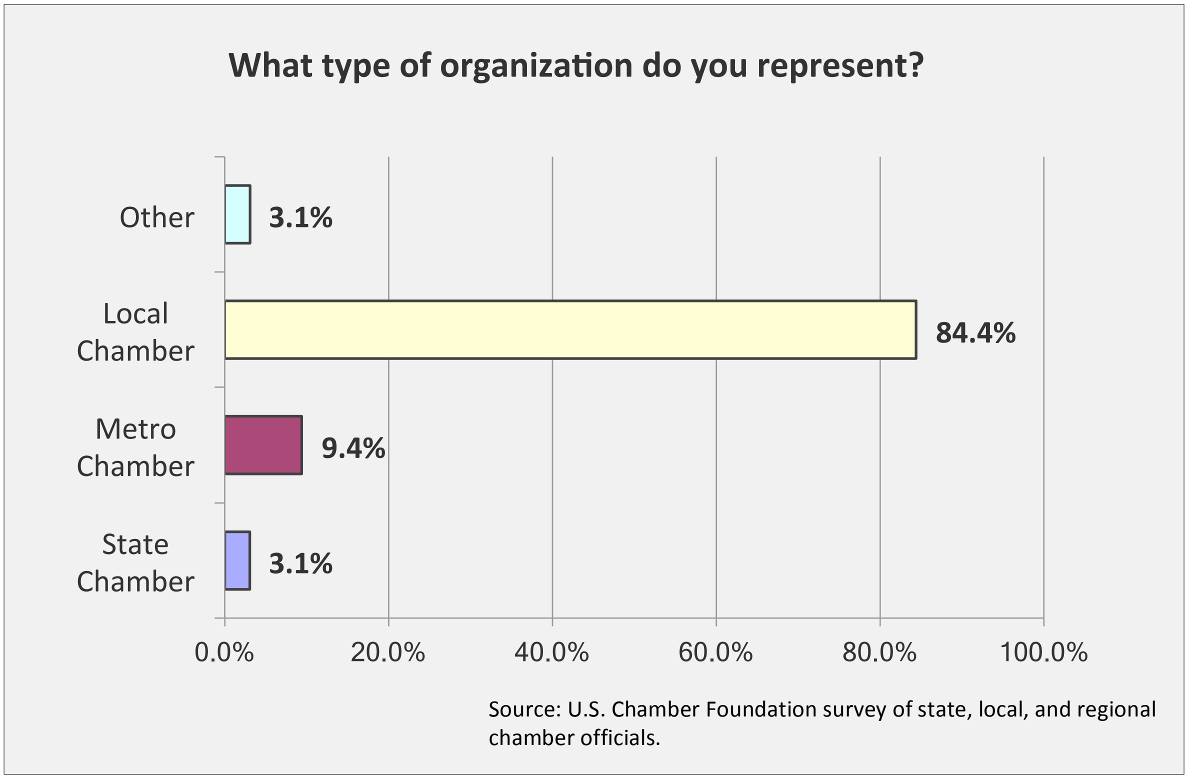
Figure B1. Roles of Survey Participants



Source: U.S. Chamber Foundation survey of state, local, and regional chamber officials.

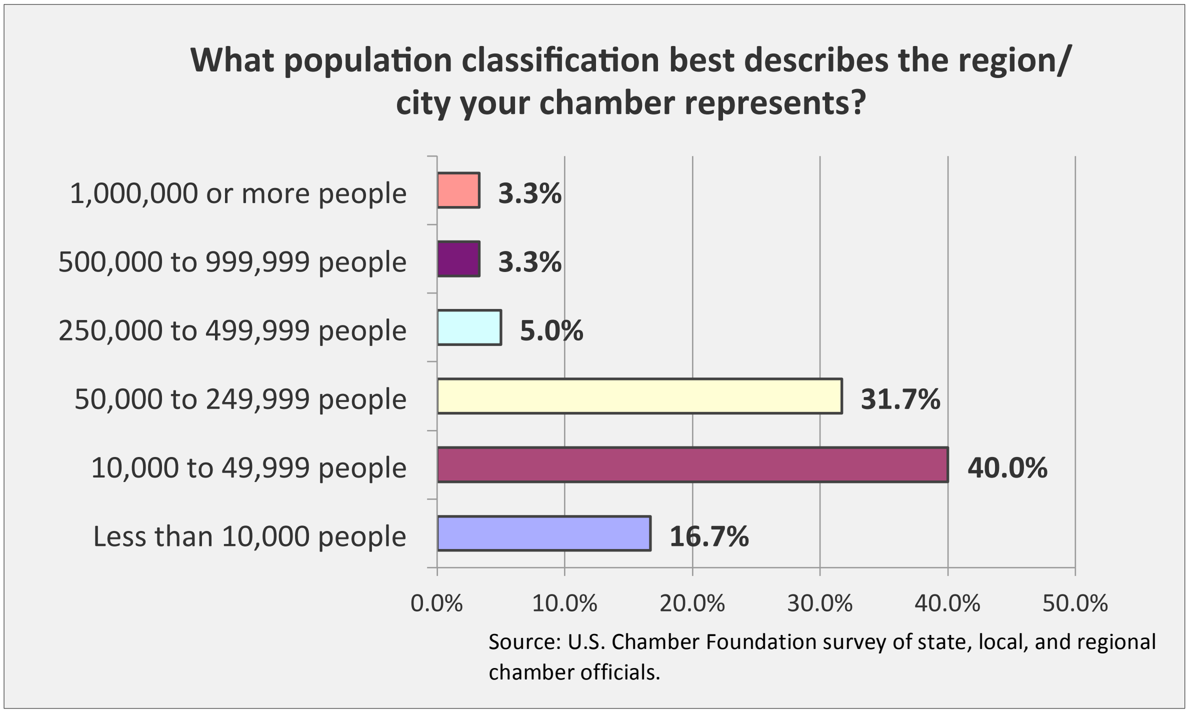
The vast majority of survey participants (75.8%) were either the CEO or president of their organizations.

Figure B2. Organizations of Survey Respondents



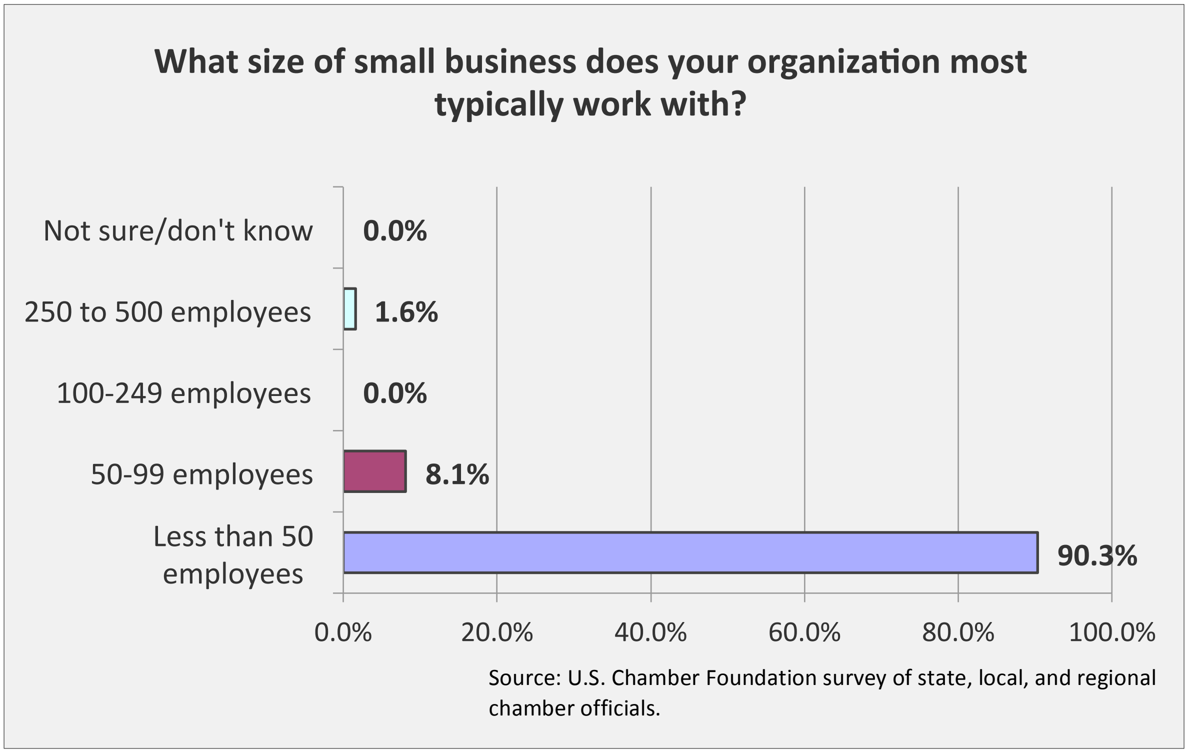
Survey participants included representatives from state, local, and metro chambers. Local chamber officials composed the bulk of the respondents, making up nearly 85% of the overall survey pool.

Figure B3. Region and City Size of Survey Respondents



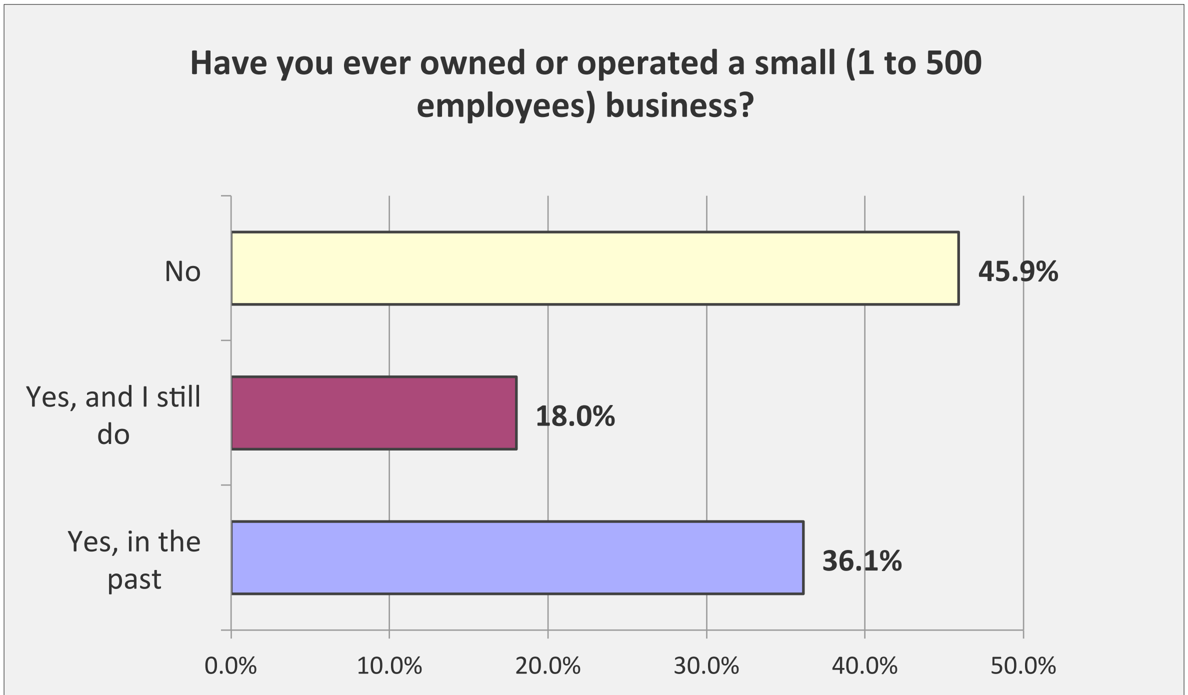
Cities ranging from small to large were represented in the respondent set. A plurality of participants worked for chambers set in communities with populations between 10,000 and 49,999. A majority of the respondents (56.7%) worked in cities or regions with populations under 50,000. Cities and regions between 50,000 and 249,999 were also well represented in the participant pool (31.7%).

Figure B4. Size of Small Businesses Represented by Respondents



Respondents represented a variety of cities and regions by population size and geographic location. One thing they largely have in common was the type of small business they interact with most often. More than 90% of participants reported that they most typically work with small businesses with fewer than 50 employees. This is not surprising, given the fact that nearly 98% of the country's businesses with employees have fewer than 100 employees. But it does work to temper the view of chambers as representatives of larger, more established businesses.

Figure B5. Small Business Background of Survey Respondents



Source: U.S. Chamber Foundation survey of state, local, and regional chamber officials.

Reinforcing that connection to the needs and concerns of small businesses is the business experience of those working at chambers across the country. More than half of survey participants reported that they have experience owning or operating a small business, with 18% reporting they *currently* own or operate a small business in addition to working with their chambers. As a result, nearly 20% of the sample had current firsthand experience in dealing with regulations as a small business owner, and the majority had directly dealt with the impact of regulations.

Figure B6. Level of Regulatory Impact by Issue

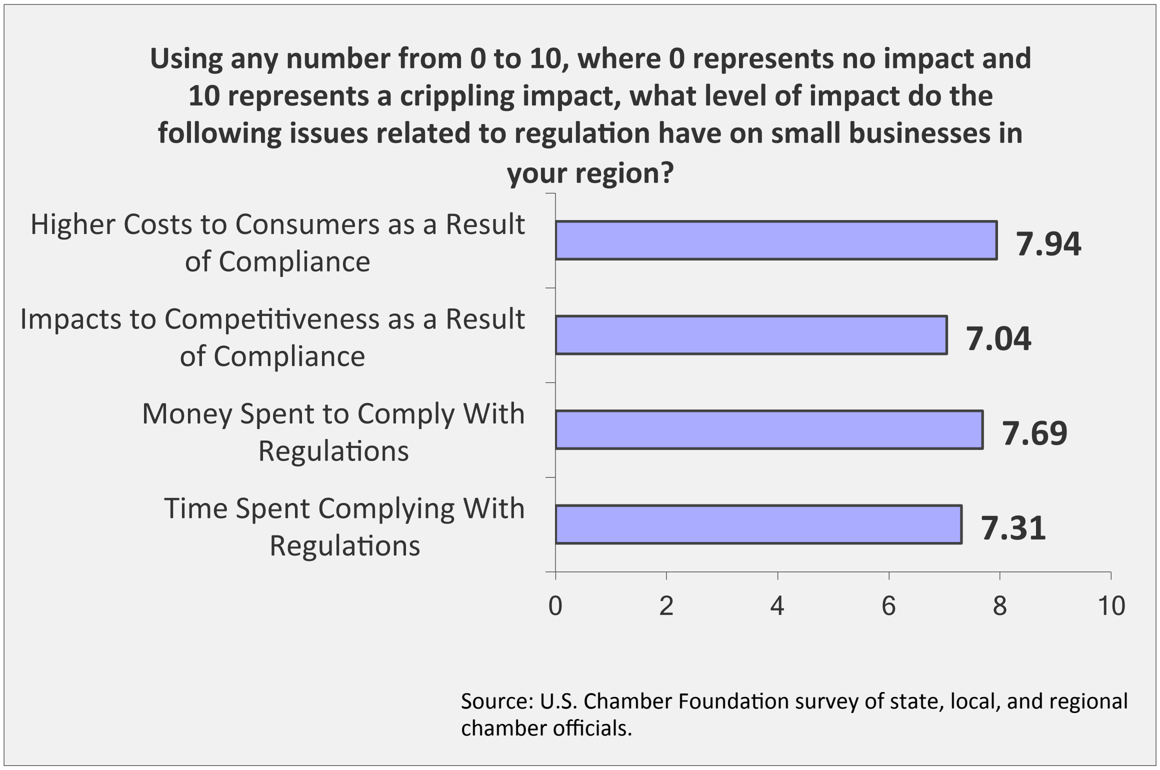


Table B1. Difficulty of Regulatory Burden by Class of Regulation

Class of Regulation	Percentage Difficult or Very Difficult for Small Businesses
Environmental Protection	82.2%
Labor and Hiring	79.5
Land Use and Construction	77.7
Licensing and Permits	70.4
Taxation	68.9
Incorporation and Registration	62.3
Finance and Investment	55.5
Contract Enforcement and Dispute Resolution	48.9
Worker Safety	46.7
International Trade	40.0%
Source: U.S. Chamber Foundation survey of state, local, and regional chamber officials.	

Figure B7. Regulatory Impact on Relocating

Figure B8. Ability to Access Regulatory Information

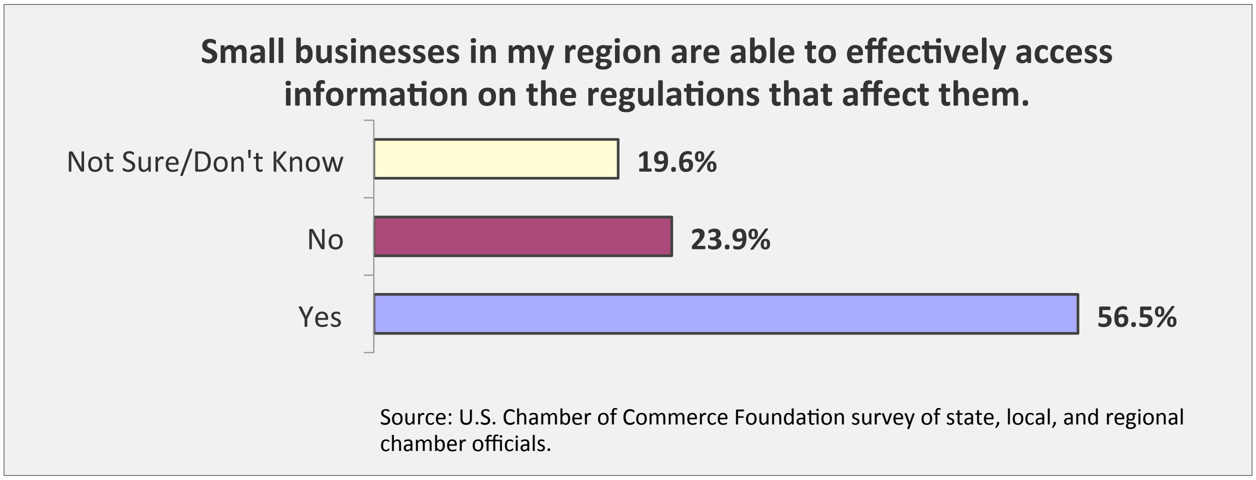


Figure B9. Stringency of Regulatory Enforcement

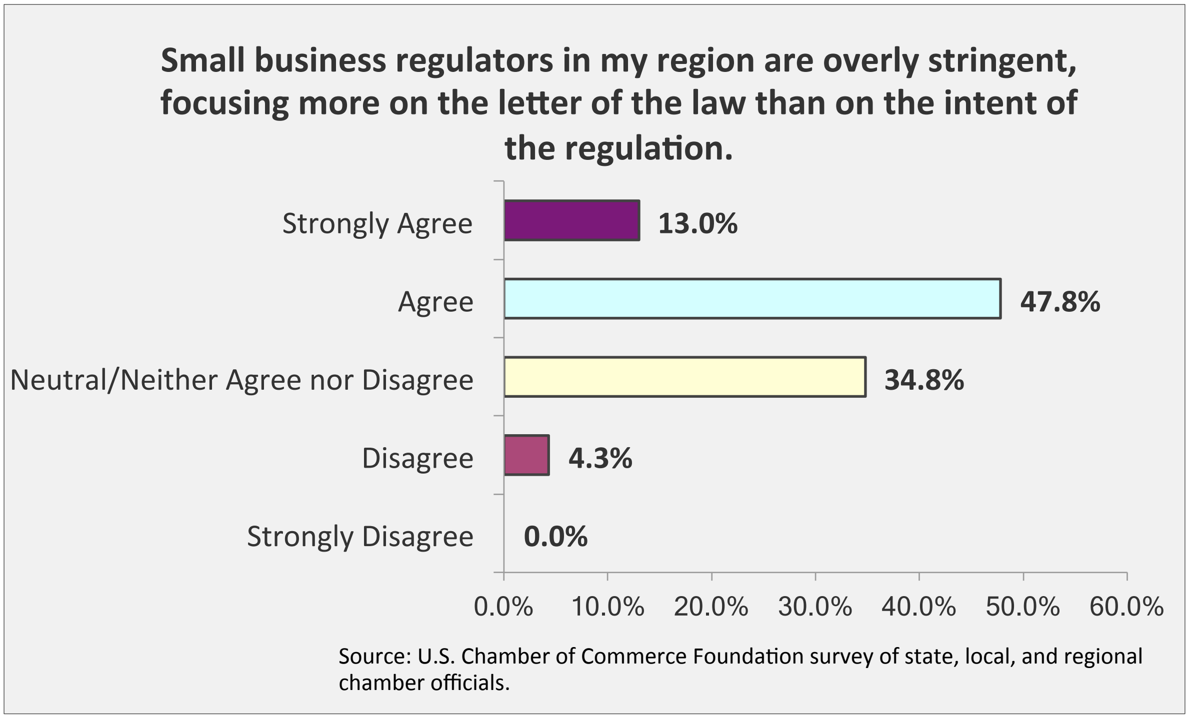


Table B2. Changes in the Impact of Regulation

How Has the Impact of Regulations on Small Businesses Changed Over the Past Several Years?					
	Much Less	**Less**	**About the Same**	**More**	**Much More**
Federal	3.6%	3.6%	14.3%	37.5%	41.1%
State	1.8%	10.7%	21.4%	41.1%	25.0%
Local	0.0%	8.9%	64.3%	21.4%	5.4%
Source: U.S. Chamber of Commerce Foundation survey of state, local, and regional chamber officials.					

Figure B10. Level of Regulatory Flexibility

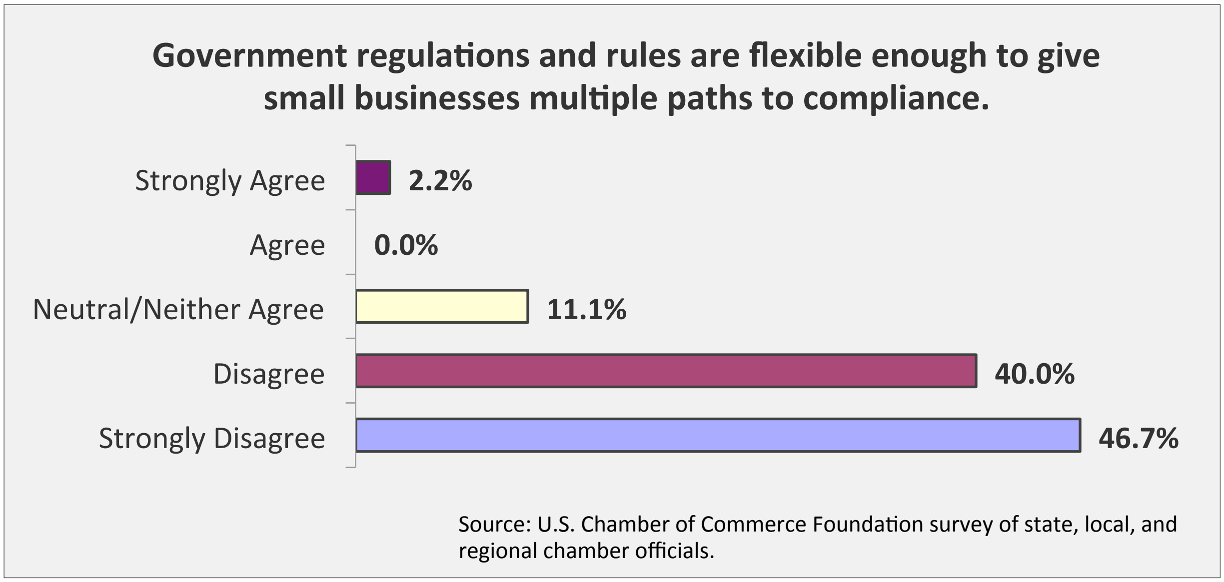


Table B3. Adoption of IT and Open Data

To What Degree Have Government Regulators in Your Region Adopted the Use of Information Technology and Open Data?					
	Not at All	**Very Little**	**Somewhat**	**To a Great Extent**	**Not Sure/Don't Know**
State Government	4.4%	15.6%	**35.5%**	20.0%	24.4%
Local Government	6.8%	20.5%	**40.9%**	11.4%	20.5%

Source: U.S. Chamber of Commerce Foundation survey of state, local, and regional chamber officials.

Table B4. Level of Cooperation between Government and Business

Small business and government in my region communicate and work with each other effectively.					
	Strongly Disagree	**Disagree**	**Neither Agree nor Disagree**	**Agree**	**Strongly Agree**
State Government	11.6%	32.6%	27.9%	25.6%	2.3%
Local Government	11.4%	20.5%	18.2%	34.1%	15.9%

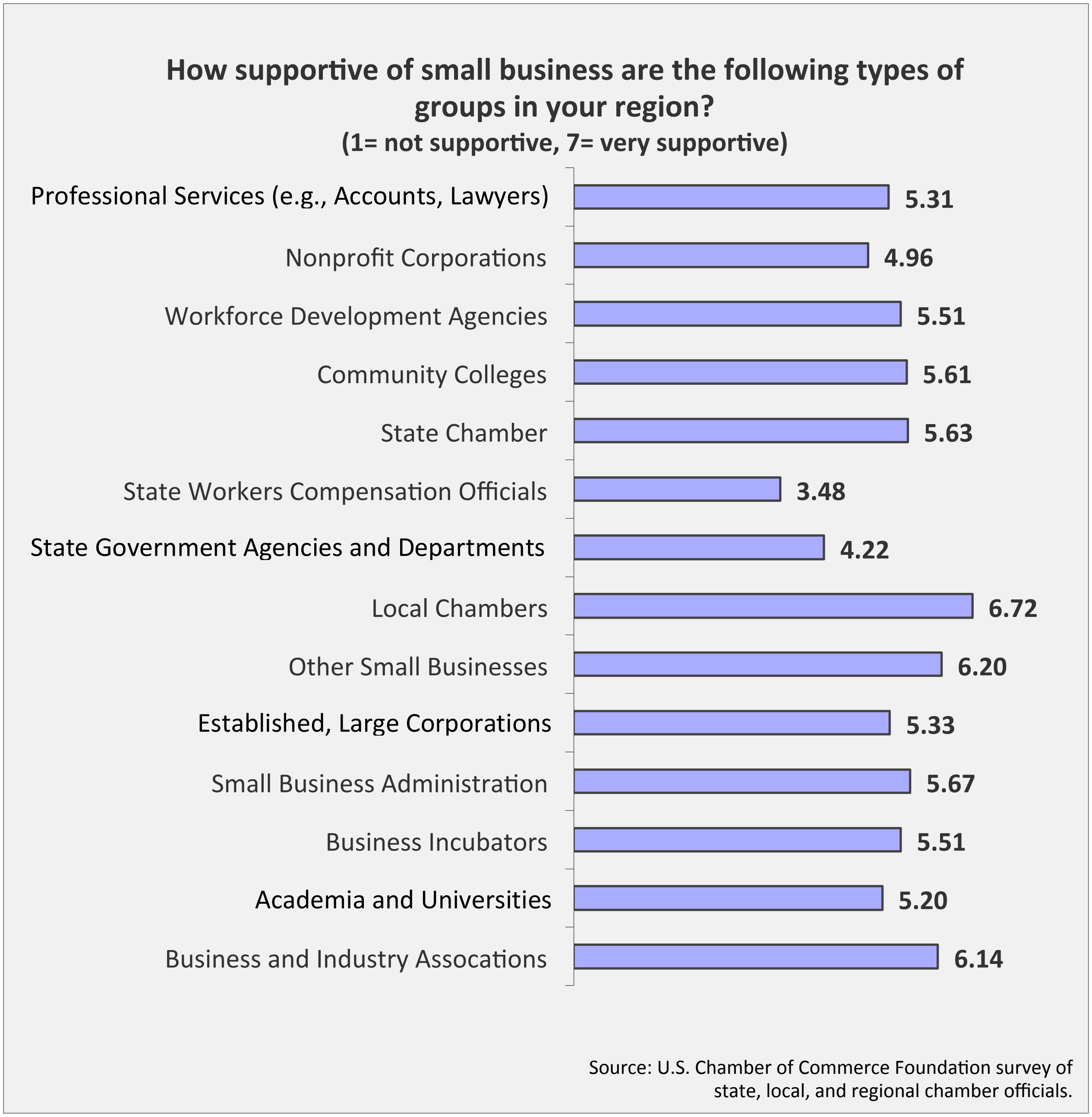
Source: U.S. Chamber of Commerce Foundation survey of state, local, and regional chamber officials.

Table B5. Prospective Areas for Regulatory Reform

Activity	Percentage Somewhat/Very Useful	Percentage Not Available in Region	Opportunity Score
Regulatory Advisory Services for Small Businesses	92.1%	54.8%	146.9
Support to Litigate Against Regulatory Overreach	82.1%	57.1%	139.2
Model Legislation for Regulatory Reforms	81.6%	57.1%	138.7
Events Promoting Regulatory Reform	78.9%	57.1%	136
Group Advocacy for Regulatory Reform	89.5%	42.9%	132.4
Best Practice Models for Regulatory Reform	79.0%	51.2%	130.2
Awards for Leaders in Regulatory Reform	55%	59.5%	114.5
Reports on the Impact of Regulation	90.2%	23.8%	114
Updates on New and Pending Regulation	95.0%	14.3%	109.3
Source: U.S. Chamber of Commerce Foundation survey of state, local, and regional chamber officials.			

Note: The "opportunity score" aims to give a rough estimate of the opportunity to provide an outreach service to small businesses and was calculated by adding together the usefulness and unavailability data points.

Figure B11. Levels of Support by Outside Groups



Appendix C: Listening to Small Business Owners

The U.S. Chamber's Council on Small Business is in favor of constructive assistance to help small firms comply with regulation. Council insight on specific tactics—collected in a focus group meeting—can be viewed through the guardian, defender, and reformer framework as shown below.

Council on Small Business

Insights on Tactics

Guardian

- ✓ Regulations are not well publicized, which often leads to surprises and unintended consequences for small business
- ✓ Most small businesses feel they don't have enough information about regulations and how they apply to them: there is a need to help people know what regulations are and the full scope of the regulatory environment.
- ✓ *Need a national* "disclosure day" where everyone is notified of new rules and regulations.

Defender

- ✓ Most people believe regulations are a serious problem, but it is not often a priority so they are not mobilized to fight it. Provide financial assistance
- ✓ Pick cases where other small businesses say, "we are all going to lose if that company loses."
- ✓ Can be a fund to pay for problems or to make a connection to set of resources to information The fund could serve a broker and advisor role, instead of or in addition to direct assistance.

Reformer

- ✓ Even where reform work is done, small businesses are not at the table.
- ✓ Some industries, like construction, have regulatory help on the federal level, but not as much on the state or local levels. The restaurant industry is local but there is little regulatory help in place.
- ✓ Provide model legislation at state level.

Consensus among Council for Small Business members assessed during this project is that helping small firms makes sense. The council feels that the effort could have two priorities:

(1) Educate the masses about regulatory impact and reform efforts.

(2) Defend small businesses from specific cases of overreach. Small businesses could benefit from advice and direction about how to comply or when to fight back.

[1] Businesses may be categorized in various ways, including by total employment, total sales, annual receipts, or other measures of a firm's overall business activity. The Small Business Administration (SBA) and most other researchers commonly define a "small business" as one employing fewer than 500 employees.

The SBA uses different size standards based on industry to gauge qualification for a variety of programs, including a basic standard of "500 employees for most manufacturing and mining industries and $7.5 million in average annual receipts for many nonmanufacturing industries." There are, however, exceptions, and the federal government maintains a "Table of Small Business Size Standards" to ease classification of businesses in various industries.

[2] "Frequently Asked Questions," U.S. Small Business Administration, September 2012, <https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf> (09 February 2017).

[3] Ibid.

[4] "Entrepreneurship and the U.S. Economy," Bureau of Labor Statistics, 28 April 2016, <http://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm> (09 February 2017).

[5] "Nation Gains More than 4 Million Nonemployer Businesses Over the Last Decade, Census Bureau Reports," United States Census Bureau, 27 May 2015, <https://www.census.gov/newsroom/press-releases/2015/cb15-96.html> (09 February 2017).

[6] Ibid.

[7] Ian Hathaway and Robert E. Litan, "What's Driving the Decline in the Firm Formation Rate? A Partial Explanation," The Brookings Institution, November 2014, <https://www.brookings.edu/wp-content/uploads/2016/06/driving_decline_firm_formation_rate_hathaway_litan.pdf> (09 February 2017).

[8] Ben Casselman, "The Next Amazon (Or Apple, Or GE) Is Probably Failing Right Now," FiveThirtyEight, 3 March 2016, <https://fivethirtyeight.com/features/the-next-amazon-or-apple-or-ge-is-probably-failing-right-now/> (09 February 2017).
"Business Dynamics Statistics," United States Census Bureau, 2014 <http://www.census.gov/ces/dataproducts/bds/data_firm.html> (09 February 2017).

[9] "Small Jobs Index," Paychex, January 2017, <http://www.paychex.com/jobs-index/> (13 January 2017).

[10] "Small Business Optimism Index," National Federation of Independent Business, December 2016, <http://www.nfib.com/surveys/small-business-economic-trends/> (13 January 2017).

[11] Robert W. Fairlie, et al. "Kauffman Index of Startup Activity 2016," Kauffman Foundation, August 2015, <http://www.kauffman.org/~/media/kauffman_org/microsites/kauffman_index/startup_activity_2016/kauffman_index_startup_activity_national_trends_2016.pdf> (13 February 2017).

[12] Nicole V. Crain and W. Mark Crain, "The Impact of Regulatory Costs on Small Firms," U.S. Small Business Administration, September 2010, <https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf>, pg. iv. (09 February 2017).

[13] W. Mark Crain and Nicole V. Crain, "The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business," National Association of Manufacturers, 10 September 2014, <http://www.nam.org/Data-and-Reports/Cost-of-Federal-Regulations/Federal-Regulation-Full-Study.pdf> (09 February 2017).

[14] Peter T. Calcagno and Russell S. Sobel, "Regulatory Costs on Entrepreneurship and Establishment Employment Size," Small Business Economics, June 2013, <http://faculty.citadel.edu/sobel/All%20Pubs%20PDF/Regulatory%20Costs%20on%20Entrepreneurship%20and%20Establishment%20Employment%20Size.pdf>, pg. 15. (09 February 2017).

[15] Ben Gitis and Sam Batkins, "Regulatory Impact on Small Business Establishments," American Action Forum, 24 April 2015, <http://americanactionforum.org/research/regulatory-impact-on-small-business-establishments> (09 February 2017).

[16] Anthony Breitzman and Diana Hicks, "An Analysis of Small Business Patents by Industry and Firm Size," U.S. Small Business Administration, November 2008, <http://rdw.rowan.edu/cgi/viewcontent.cgi?article=1011&context=csm_facpub> (09 February 2017).

[17] "The State of Small Business in America 2016," Babson College, June 2016, <http://www.babson.edu/executive-education/custom-programs/entrepreneurship/10k-small-business/Documents/goldman-10ksb-report-2016.pdf> (09 February 2017).
Sam Batson, "Small Business Implications of Greenhouse Gas Regulation," American Action Forum, 19 September 2013, <https://www.americanactionforum.org/research/small-business-implications-of-greenhouse-gas-regulation/> (13 February 2017).

[18] James Hammerton, "The Hidden Cost of Regulation," FreedomWorks, 10 June 2011, <http://www.freedomworks.org/content/hidden-cost-regulation> (09 February 2017).

[19] Clyde Wayne Crews Jr., "Tip of the Costberg: On the Invalidity of All Cost of Regulation Estimates and the Need to Compile them Anyway," Competitive Enterprise Institute, 8 January 2017, <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2502883> (09 February 2017).

[20] Clyde Wayne Crews Jr., "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State," Competitive Enterprise Institute, 8 May 2015, <https://cei.org/sites/default/files/10%2C000%20Commandments%202015%20-%2005-12-2015.pdf> (09 February 2017).

[21] "Impact of Regulation on Productivity," Department for Business, Enterprise and Regulatory Reform, September 2008, <http://www.cses.co.uk/upl/File/Impact-of-regulation-on-productivity.pdf> (11 February 2017)

[22] "2015 Cost Benefit Report," Office of Management and Budget, 2015 <https://www.whitehouse.gov/sites/default/files/omb/inforeg/2015_cb/draft_2015_cost_benefit_report.pdf>.

[23] Ibid., pg. 10.

[24] Ibid., pg. 7–8.

[25] Ibid.

[26] Clyde Wayne Crews Jr., "The Cost of Government Regulation," Forbes, 06 July 2011, <http://www.forbes.com/sites/waynecrews/2011/07/06/the-cost-of-government-regulation-the-barack-obama-cass-sunstein-urban-legend/#f92f06765d44> (09 February 2017).

[27] Ibid.

[28] "2015 Cost Benefit Report," Office of Management and Budget, 2015 <https://www.whitehouse.gov/sites/default/files/omb/inforeg/2015_cb/draft_2015_cost_benefit_report.pdf>, pg. 8.

[29] Office of Information and Regulatory Affairs, Executive Office of the President, February 2017, <https://www.reginfo.gov/public/> (09 February 2017).

[30] The Office of Management Budget estimated annualized costs of major federal rules between 2004 and 2014 ranging between $56.6 billion to $102.9 billion in 2010 dollars.
"2015 Cost Benefit Report," Office of Management and Budget, 2015 <https://www.whitehouse.gov/sites/default/files/omb/inforeg/2015_cb/draft_2015_cost_benefit_report.pdf>.

[31] Sanjay B. Varshney, Ph.D., CFA and Dennis H. Tootelian, Ph.D., "Cost of State Regulations on California Small Business Study," California Transportation Commission, September 2009, <http://www.catc.ca.gov/programs/rtp/materials/SBA_study_on_regulatory_costs.pdf> (09 February 2017).

[32] Ibid., pg. 10.

[33] Sarwat Jahan and Ahmed Saber Mahmud, "What is the Output Gap?," International Monetary Fund, September 2013, <http://www.imf.org/external/pubs/ft/fandd/2013/09/basics.htm> (09 February 2017).

[34] Ibid.

[35] Ibid.

[36] "Trends in Potential Output," European Central Bank, January 2011, <https://www.ecb.europa.eu/pub/pdf/other/art2_mb201101en_pp73-85en.pdf> (09 February 2017).

[37] Jason Wiens and Chris Jackson, "The Importance of Young Firms for Economic Growth," Kauffman Foundation, 13 September 2015, <http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth> (09 February 2017).

[38] Dane Stangler and Jordan Bell-Masterson, "The Return of Business Creation," Kauffman Foundation, 05 August 2013, <http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/the-return-of-business-creation> (09 February 2017).

[39] "Impact of Regulation on Productivity," Department for Business, Enterprise and Regulatory Reform, September 2008, <http://www.cses.co.uk/upl/File/Impact-of-regulation-on-productivity.pdf>, pg. x. (11 February 2017).

[40] Ibid., pg. 77–97.

[41] "Do More Regulations Equal Less Safety?" Mercatus Center at George Mason University, <http://mercatus.org/sites/default/files/publication/More-Regulations-Less-Safety.pdf> (09 February 2017).

[42] Andrew Hale, David Borys, and Mark Adams, "Regulatory Overload: A Behavioral Analysis of Regulatory Compliance," Mercatus Center at George Mason University, November 2011, <http://mercatus.org/sites/default/files/publication/Reg_Overload_HaleBorysAdams_WP1147.pdf>, pg. 5. (09 February 2017).

[43] Peter T. Calcagno and Russell S. Sobel, "Regulatory Costs on Entrepreneurship and Establishment Employment Size," Small Business Economics, June 2013, <http://faculty.citadel.edu/sobel/All%20Pubs%20PDF/Regulatory%20Costs%20on%20Entrepreneurship%20and%20Establishment%20Employment%20Size.pdf>, pg. 2, (09 February 2017).

[44] Jennifer Depaul, "The EPA's Lead-Paint Balloon," The Fiscal Times, 13 November 2011, <http://www.thefiscaltimes.com/Articles/2011/11/13/The-EPAs-Lead-Paint-Lead-Balloon#page1> (09 February 2017).

[45] "Investment Climate," The World Bank, 11 May 2017, <https://www.wbginvestmentclimate.org/uploads/BetterBusinessRegulationDenmark.pdf>, pg. 7. (09 February 2017).

[46] Ibid., pg. 14.

[47] Andrew Hale, David Borys, and Mark Adams, “Regulatory Overload: A Behavioral Analysis of Regulatory Compliance,” Mercatus Center at George Mason University, November 2011, <http://mercatus.org/sites/default/files/publication/Reg_Overload_HaleBorysAdams_WP1147.pdf>, pg. 2. (09 February 2017).

[48] Ibid.

[49] Spencer Banzhaf and Andrew Chupp, “Environmental Quality in a Federation: Which Level of Government Should Regulate Air Pollution?” Vox, 01 July 2010, <http://voxeu.org/article/which-level-government-should-regulate-air-pollution> (09 February 2017).

[50] Ibid.

[51] “Government Organization Summary Report: 2012,” United States Census Bureau, 26 September 2013, <http://www2.census.gov/govs/cog/g12_org.pdf> (09 February 2017).

[52] “Document Search Database,” Office of the Federal Register, 2017, <https://www.federalregister.gov/documents/search?conditions%5Bpublication_date%5D%5Bgte%5D=01%2F01%2F2013&conditions%5Bpublication_date%5D%5Blte%5D=12%2F31%2F2014&conditions%5Bsmall_entity_ids%5D%5B%5D=1#advanced>

[53] Susan Dudley and Melinda Warren, “Regulators’ Budget Increases Consistent with Growth in Fiscal Budget,” Regulatory Studies Center – George Washington University, May 2015, <https://regulatorystudies.columbian.gwu.edu/sites/regulatorystudies.columbian.gwu.edu/files/downloads/2016_Regulators_Budget.pdf>, pg. 6.

[54] Author’s analysis of U.S. Bureau of Economic Analysis data, Feb. 2016.

[55] Interview with U.S. Chamber Council on Small Business members.

[56] Clyde Wayne Crews Jr., “Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State,” Competitive Enterprise Institute, 8 May 2015, <https://cei.org/sites/default/files/10%2C000%20Commandments%202015%20-%2005-12-2015.pdf>, pg. 2, (09 February 2017).

[57] “Federal Register Document Pages,” Office of the Federal Register, April 2014, <https://www.federalregister.gov/uploads/2014/04/OFR-STATISTICS-CHARTS-ALL1-1-1-2013.pdf>

[58] The Oxford World Classic’s paperback version of Tolstoy’s *War and Peace* is 1,440 pages long.

[59] Jason Wiens and Chris Jackson, “Occupational Licensing: A Barrier to Entrepreneurship,” Kauffman Foundation, 16 September 2015, <http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/occupational-licensing-a-barrier-to-entrepreneurship> (09 February 2017).

[60] Michael Mandel, “Pebbles in the Stream: Does the FDA Slow Medical Technology Innovation?” Mandel on Innovation and Growth, 04 December 2010, <https://innovationandgrowth.wordpress.com/2010/12/04/pebbles-in-the-stream-does-the-fda-slow-medical-technology-innovation/> (09 February 2017).

[61] Interview with U.S. Chamber Council on Small Business members.

[62] Maria Contreras-Sweet and Brian M. Castro, “ Partnering to Deliver Solutions and Value to Small Business,” U.S. Small Business Administration, 2014 <https://www.sba.gov/sites/default/files/ONO_2014.pdf> (09 February 2017).

[63] Edward Glaeser and Cass R. Sunstein, “Regulatory Review for the States,” National Affairs, Summer 2014, <http://www.nationalaffairs.com/publications/detail/regulatory-review-for-the-states> (09 February 2017).

[64] Russell S. Sobel and John A. Dove, “Analyzing the Effectiveness of State Regulatory Review,” The Citadel, 07 August 2015, <http://faculty.citadel.edu/sobel/All%20Pubs%20PDF/Analyzing%20Effectiveness%20of%20State%20Regulatory%20Review.pdf> (09 February 2017).

[65] For example, Nevada requires small business impact statements for certain state and municipal regulations.
“Business Impact Statements,” City of Henderson Nevada, 2015, <http://www.cityofhenderson.com/city-clerk/city-council-and-redevelopment-agency/business-impact-statements> (09 February 2017).

[66] Stuart Shapiro and Deborah Borie-Holtz, “What are the Effects of “Administrative Procedures” Regulatory Reform?” Rutgers University, Spring 2011, <http://object.cato.org/sites/cato.org/files/serials/files/regulation/2011/4/regv34n1-4.pdf>, pg. 15, (09 February 2017).

[67] Jason A. Schwartz, “52 Experiments with Regulatory Review,” Institute for Policy Integrity, November 2010, <http://policyintegrity.org/files/publications/52_Experiments_with_Regulatory_Review.pdf>, pg. 3, (09 February 2017).

[68] “What is the Breakdown of Tax Revenues Among Federal, State, and Local Governments?” Tax Policy Center, 2015 <http://www.taxpolicycenter.org/briefing-book/what-breakdown-tax-revenues-among-federal-state-and-local-governments>(09 February 2017).

[69] Wayne Winegarden, Ph.D., “The 50-State Small Business Index,” Pacific Research Institute, July 2015, <https://www.pacificresearch.org/fileadmin/images/Studies_2015/SmBusinessIndex_UpdatedVersion2_web.pdf> (09 February 2017).

[70] Raymond J. Keating, “Small Business Policy Index 2017,” Small Business & Entrepreneurship Council, 2017, <http://sbecouncil.org/2017/02/08/sbe-council-ranks-the-50-states-in-small-business-policy-index-2017/> (11 February 2017).

[71] Sanjay B. Varshney, Ph.D., CFA and Dennis H. Tootelian, Ph.D., “Cost of State Regulations on California Small Business Study,” California Transportation Commission, September 2009, <http://www.catc.ca.gov/programs/rtp/materials/SBA_study_on_regulatory_costs.pdf> (09 February 2017).
[72] Joseph J. Sabia, “The Effect of Minimum Wage Increases on Retail and Small Employment,” Employment Policies Institute, May 2006,<https://www.epionline.org/wp-content/studies/sabia_05-2006.pdf> (09 February 2017).
[73] White House. "Occupational Licensing: A Framework for Policymakers," *Report prepared by the Department of the Treasury Office of Economic Policy, the Council of Economic Advisers and the Department of Labor*, 2015, <https://www.whitehouse.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf>.
[74] Ibid.
[75] Morris M. Kleiner, “Occupational Licensing: Protecting the Public Interest or Protectionism?” W.E. Upjohn Institute, July 2011, <http://research.upjohn.org/cgi/viewcontent.cgi?article=1008&context=up_policypapers> (09 February 2017).
[76] Michael Hendrix, “Regulatory Climate Index 2014,” U.S. Chamber of Commerce Foundation, 2014, <https://www.uschamberfoundation.org/sites/default/files/CityReg%20Report_0.pdf> (09 February 2017).
[77] “The RFA in a Nutshell: A Condensed Guide to the Regulatory Flexibility Act,” U.S. Small Business Administration, October 2010, <https://www.sba.gov/sites/default/files/advocacy/RFA_in_a_Nutshell2010.pdf> (09 February 2017).
[78] “Frequently Asked Questions,” U.S. Small Business Administration, June 2016, <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf> (09 February 2017).
U.S. Small Business Administration, Office of Advocacy. https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf For the industry-level definitions of small business used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.
[79] Raymond J. Keating, “Small Business Policy Index 2017,” Small Business & Entrepreneurship Council, 2017, <http://sbecouncil.org/2017/02/08/sbe-council-ranks-the-50-states-in-small-business-policy-index-2017/> (11 February 2017).
[80] Russell S. Sobel and John A. Dove, “Analyzing the Effectiveness of State Regulatory Review,” The Citadel, 07 August 2015, <http://faculty.citadel.edu/sobel/All%20Pubs%20PDF/Analyzing%20Effectiveness%20of%20State%20Regulatory%20Review.pdf> pg. 8, (09 February 2017).
[81] “State Supreme Court Data Project,” Rice University, January 2001, <http://www.ruf.rice.edu/~pbrace/statecourt/> (09 February 2017).
[82] Stuart Shapiro and Deborah Borie-Holtz, “Does Process Matter: Regulatory Procedure and Regulatory Output in the States,” Institute for Policy Integrity, 2011, <http://policyintegrity.org/files/publications/Does_Process_Matter.pdf>, pg. 1. (09 February 2017).
[83] Ibid.
[84] Ibid., pg. 1–2. [Emphasis in the original.]
[85] Omar Al – Ubaydli and Patrick A. McLaughlin, “RegData: A Numerical Database on Industry-Specific Regulations for All United States Industries and Federal Regulations, 1997-2012,” Regulation & Governance, 16 December 2015, <http://onlinelibrary.wiley.com/doi/10.1111/rego.12107/abstract;jsessionid=2FF297BE9740DD73CCD9861902B1AC94.f03t03>
[86] “FAQ,” RegData, <http://regdata.org/faq/> (09 February 2017).
[87] Personal interview with Dr. Patrick McLaughlin, George Mason University/Mercatus.
[88] James Norton, “R.T. Rybak, The Gastro-Mayor,” Heavy Table, 10 March 2011, <http://heavytable.com/r-t-rybak-the-gastro-mayor/> (09 February 2017).
[89] Joel Kotkin, Delore Zimmerman, Matthew Leiphon, and Mark Schill, “Enterprising Cities: A Force for American Prosperity,” U.S. Chamber of Commerce, 2013, https://www.uschamber.com/sites/default/files/legacy/reports/BI_CF_ebook_v5.pdf>, pg. 23–26, (09 February 2017).
[90] “Open Government,” Data.Gov, 2017, <https://www.data.gov/open-gov/> (09 February 2017).
[91] “About Us,” Accela, <http://www.accela.com/company/about-us> (09 February 2017).
[92] “Success Stories,” Accela, <http://www.accela.com/company/customers/success-stories> (09 February 2017).
[93] “About KCSourceLink, KCSourceLink, <http://www.kcsourcelink.com/about-us/about-kcsourcelink> (09 February 2017).
[94] “Utah Business Regulation Review: Report to Governor Gary R. Herbert,” Office of Governor Gary R. Herbert, 2011, <http://www.rules.utah.gov/reports/2011UtahBusinessRegulationReview.pdf>.
[95] “Regulation Reform and Innovation,” Organization for Economic Co-operation and Development, <http://www.oecd.org/sti/inno/2102514.pdf> (09 February 2017).
See pages 7 and 11 for a breakdown of the three classes of regulation.
[96] Luke A. Stewart, “The Impact of Regulation on Innovation in the United States: A Cross-Industry Literature Review,” Information Technology & Innovation Foundation, June 2010 <http://www.itif.org/files/2011-impact-regulation-innovation.pdf> pg. 3, (09 February 2017).
[97] Interview with U.S. Chamber Council on Small Business members.

[98] "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises," International Bank for Reconstruction/The World Bank, 2013, <http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (09 February 2017).

[99] Office of Information and Regulatory Affairs, Executive Office of the President, February 2017, <https://www.reginfo.gov/public/> (09 February 2017).

[100] "County Business Patterns," United States Census Bureau, 21 July 2016, <http://www.census.gov/programs-surveys/cbp/data/tables.html> (09 February 2017).

[101] Joseph J. Sabia, "The Effect of Minimum Wage Increases on Retail and Small Employment," Employment Policies Institute, May 2006,<https://www.epionline.org/wp-content/studies/sabia_05-2006.pdf> (09 February 2017).
"Wage and Hour Division," U.S. Department of Labor, 01 January 2017, <https://www.dol.gov/whd/minwage/america.htm> (09 February 2017).

[102] Wayne Winegarden, Ph.D., "The 50-State Small Business Index," Pacific Research Institute, July 2015, <https://www.pacificresearch.org/fileadmin/images/Studies_2015/SmBusinessIndex_UpdatedVersion2_web.pdf> (09 February 2017).
"2013 Statistics of U.S. Businesses: Legal Form of Organization Tables," United States Census Bureau, 06 May 2016 <http://www.census.gov/newsroom/press-releases/2016/cb16-tps101.html> (09 February 2017).
"Workers' Compensation: Benefits, Coverage, and Cost 2013," National Academy of Social Insurance, August 2015, <https://www.nasi.org/sites/default/files/research/NASI_Work_Comp_Year_2015.pdf> (09 February 2017).

[103] Ibid.

[104] "2013 Statistics of U.S. Businesses: Legal Form of Organization Tables," United States Census Bureau, 06 May 2016 <http://www.census.gov/newsroom/press-releases/2016/cb16-tps101.html> (09 February 2017).
Morris M. Kleiner, "Reforming Occupational Licensing Policies," The Hamilton Project, January 2015, <http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/reform_occupational_licensing_policies_kleiner_v4.pdf> (09 February 2017).

[105] "Research @ Census – 2016 Planning Database," United States Census Bureau, July 2015 <https://www.census.gov/research/data/planning_database/2016/> (09 February 2017).
Microeconomic Applications, Inc., "Research on State Regulatory Flexibility Acts," U.S. Small Business Administration, May 2013, <https://www.sba.gov/sites/default/files/files/rs413tot.pdf> (09 February 2017).
Wayne Winegarden, Ph.D., "The 50-State Small Business Index," Pacific Research Institute, July 2015, <https://www.pacificresearch.org/fileadmin/images/Studies_2015/SmBusinessIndex_UpdatedVersion2_web.pdf> (09 February 2017).

[106] The impact analyses in Maryland, Minnesota, and New Hampshire are not limited to small businesses.