

## A BARRIER to INNOVATION: PENNSYLVANIA'S REGULATORY CULTURE

Pennsylvania needs regulatory policies that balance public safety and protect our economy without placing undue financial burdens, red tape, and compliance mazes on businesses. State regulations multiply when we are not watching and, unfortunately, federal, and local regulations are stacked on top resulting in an accumulation of rules with a smothering effect. Pennsylvania's economy would benefit by improving the regulatory culture; stopping bad regulations before implementation, systematically reviewing existing regulations for those that are duplicative or no longer necessary, and easing the navigation maze and cost of compliance for businesses and innovators, the source of new jobs.

MBA member businesses ranked their top five business concerns. When asked "What Keeps You up at Night?" 62 percent said regulations, second only to 88 percent who cited health insurance costs.

... **2020 Government Affairs Survey, Manufacturer & Business Association,**

"Pennsylvania's administrative law code measured 13,093,618 words in total length in 2020 and contained 162,937 distinct regulatory restrictions. **Compared with 43 other states for which data are available, Pennsylvania ranks 11 (California ranks 1, as the state with the most regulatory restrictions...)**"

... **"The Regressive Effects of Regulations in Pennsylvania,"** Mercatus Center, George Mason University, Dustin Chambers, 1/7/21

**PROBLEM:** Pennsylvania has a multitude of old regulations and a development process for new regulations that can lead to a disproportionate economic impact especially on smaller and medium-sized businesses.

**SOLUTION:** The regulatory culture can be improved by stopping bad regulations before implementation, basing new regulations on cost-benefit analyses and sound science, systematically reviewing existing regulations and removing those that are duplicative or unnecessary, easing cost of compliance, and by requiring legislative approval of the costliest and most consequential new regulations. Pennsylvania can provide:

- Accountability of the financial impact of new economically significant regulations, that is, regulations with an impact or cost to the state and the private sector that exceeds \$1 million. Greater public comment and input on government regulations decisions strengthens political accountability for regulatory policy.
- A process of continuous review of existing regulations and statutes to identify those that may require modification, revision, or repeal. This will allow the sun-setting of many outdated regulations. Follow what other states have done to clean up -- for every new regulation, an agency proposes, two existing regulations must be offered for repeal.

Assistance with navigation and compliance. In smaller businesses, it is often the owner, who wears many different hats, who must be the compliance expert, almost an impossible task. As an example, other states may have regulations that are demanding, but they may provide assistance and their system that provides compliance information may be easier to navigate which helps make the whole process less burdensome and more efficient for the business.

### CONSIDER THE FACTS:

"James Broughel, Mercatus Center, George Mason University, produced a report on the regulatory environment in Pennsylvania..."

It would take someone 18 weeks to read the entire Pennsylvania Code.

Pennsylvania has a higher restriction count than some of its neighbors such as West Virginia and Maryland.

- Regulatory reform is essential because of the effects regulations have on economic growth and living standards.
- Pennsylvania has a modern system but could do more to analyze the consequences of old regulations.
- Pennsylvania can learn from other states like Kentucky, Nebraska, Missouri, and Illinois who are prioritizing the review of regulations on the books.
- Pennsylvania can consider a policy being followed by Texas and the United Kingdom such as "one in, one out" where an old regulation is removed for every new regulation introduced."

...**"Republican Representatives Announce Regulatory Reform Legislation,"** Pennsylvania Legislative Services, 1/16/2018

## MORE FACTS:

### Pennsylvania's State-Level Regulations

In terms of the number of state-level regulatory restrictions, Pennsylvania ranks 11 of 44 states, with 162,937 regulatory restrictions (where a rank of "1" is most regulated).

**Although Pennsylvania cannot unilaterally reduce federal regulatory burdens impacting the state, it can reduce homegrown red tape.** An example of state-level red tape is occupational licensure, which can impose a costly barrier to entering a profession. **Pennsylvania requires a license to work in 51 low-income occupations** and requires an average of 117 days of education, training, or apprenticeships to obtain a license.

While we have limited impact on federal regulations, MBA can have an impact on state regulations. Action is needed because regulations -- like every other rule or tax imposed by different levels of government -- are cumulative. Federal regulations stack on top of state regulations and they pose barriers to innovation especially when it comes to entrepreneurs who create new jobs.

### Federal Regulations - Key Findings in Pennsylvania

Regulations have unintended consequences. Research shows that a greater regulatory burden....is associated with increased poverty rates, higher levels of income inequality, reduced entrepreneurship, and increased consumer prices. The impact of federal regulations from 1997 to 2015 on the Pennsylvania economy is associated with the following regressive effects:

- 153,499 people living in poverty
- 2.3 percent higher income inequality
- 361 fewer businesses per year – impact on entrepreneurship
- 5,195 lost jobs annually – impact on entrepreneurship
- 7.35 percent higher prices

This link describes each of these regressive effects in Pennsylvania:

<https://www.mercatus.org/publications/regulation/regressive-effects-regulations-pennsylvania>

### Entrepreneurship

The average annual growth rate of industry-specific federal regulations from 1999 to 2015 is associated with an annual loss of 361 small firms and 5,195 jobs in Pennsylvania.

One reason a greater regulatory burden may increase poverty and inequality is that regulation can reduce entrepreneurship and job creation. Researchers matched data from the Mercatus Center on industry-level federal regulation .... with Census Bureau data on the number of small and large firms and the number of employees per industry. They estimate that a 10 percent increase in the number of regulatory restrictions pertaining to an industry is associated with a 0.42 percent reduction in the total number of small firms in that industry and a corresponding 0.55 percent reduction in small firm employment....

In 2017, Pennsylvania had 225,751 small firms, employing 2,512,633 workers. Between 1999 and 2015, industry-level federal regulatory restrictions increased, on average, by 3.78 percent per year. The research suggests that in an average year, if industry level federal regulations uniformly increase by 3.78 percent, Pennsylvania loses about 361 small firms and 5,195 jobs annually.

...MORE FACTS adapted from **"The Regressive Effects of Regulations in Pennsylvania,"** Mercatus Center, George Mason University, Dustin Chambers, 1/7/21

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