



POLICY SPOTLIGHT

A State-Level Approach to Reducing the Regulatory Burden on Small Businesses

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In the midst of the COVID-19 outbreak, states should consider exempting small businesses from large groups of regulations. Small businesses are being decimated by the economic fallout of social distancing measures, and the recovery will not be easy for them or for potential new businesses. The magnitude of the effects on small businesses suggests that the speed of their recovery is likely to set the pace for the recovery of the entire economy from the impending recession.¹ Providing regulatory relief will help some small businesses endure the crisis, and it will set the stage for others to recover when the pandemic subsides. In turn, the recovery of small businesses will spur economic growth and the return to employment of those who have been affected during this crisis.

States that want to accelerate their economic recovery should consider creating expert commissions to identify large, well-defined groups of regulations for small business exemptions. These groups would consist of regulations that are mostly targeted at large businesses anyway (i.e., small businesses are not a significant source of the underlying problems the regulations are trying to solve). This simple solution would involve the following four steps.

STEP 1. CREATE A COMMISSION

A governor or state legislature would create an independent, bipartisan commission of experts with the knowledge to undertake a systematic analysis of state regulations. The governor or legislature should also clarify whether the exemptions are to be permanent, temporary, or a mixture of the two. The commission should be composed to avoid undue influence from special interests. One way to ensure an unbiased

commission is to have its members appointed and approved by bodies representing different parties.

STEP 2. IDENTIFY AND ANALYZE GROUPS OF RELATED REGULATIONS

The commission would identify large, well-defined groups of regulations that address similar problems. Then it would analyze the groups of regulations to determine whether small businesses are an important source of the underlying problems that the regulations are intended to address and to appraise the relative burden of those regulations for small businesses.

STEP 3. FORMULATE EXEMPTION RECOMMENDATIONS

The commission should recommend permanent exemptions for small businesses as a group when they are not a major contributor to the problems addressed by the regulations. In other circumstances, when small

businesses are a significant source but not the primary source of the underlying problems addressed by the regulations, or when the burden of the regulations is borne disproportionately by small businesses, the commission should consider temporary exemptions or limited waivers. The commission would then assemble a list of all recommendations and present this list to the governor or legislature.

STEP 4. ACCEPT OR REJECT RECOMMENDATIONS AS A PACKAGE

It is crucial that the governor or legislature accept or reject the recommendations as a package. This practice minimizes the influence of special interests—particularly large businesses—who may oppose individual exemptions that could hurt their bottom lines.

BENEFITS

- **Reduced costs and fewer barriers for small businesses.** This policy will help small businesses endure social distancing measures and will create a conducive environment for new and existing small businesses in the aftermath of the crisis.
- **Low cost to government and taxpayers.** Establishing and staffing these commissions will be inexpensive compared with direct transfers to small businesses.
- **Low cost to society.** Since small businesses were not a major source of the problems in the first place, the social cost of exempting small businesses should be low.

- **Provides quick relief.** Analyzing large groups of regulations is faster than analyzing each regulation individually.
- **Success is not dependent on the length of the outbreak.** Unlike programs that provide monetary assistance, the relief provided by exemptions will not run out over time.
- **Easy for business owners to identify relevant exemptions for their businesses.** Large groups of related regulations are easier to locate than many unrelated individual regulations.

CONCLUSION

Governments are scrambling to moderate the economic downturn and curtail the hardship for workers. Our proposal to implement regulatory relief for small businesses should enable some of them to endure the crisis. More importantly, these exemptions will help create an environment that allows new and existing small businesses to lead the economic recovery.

NOTES

1. “Real-Time Data: The State of Hourly Work at US Small Businesses,” Homebase, accessed April 28, 2020, <https://join-homebase.com/data/covid-19/>; Jeffrey Schulze, “A Recession Is Most Likely Coming, Thanks to Coronavirus,” *Forbes*, March 25, 2020.

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