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Business Impact of State & Local Government Regulations

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Center for Rural Policy and Development
Request for Proposals for Economic Development Research Grant
July 2011

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Brief (100-word maximum) description of how principal investigator's experiences have prepared him/her to conduct the proposed research (**Resume attached**).

Filipovitch has been on the Urban Studies faculty at MSU for more than 30 years. He has experience in applied analytical research, program evaluation, economic development, and grant administration.

Research Study Title:
Business Impact of State & Local Government Regulations

Abstract (100 word maximum)

This project surveys businesses in Minnesota to assess the impact of State and local government regulations on businesses in Minnesota, disaggregating businesses by size, location, and industry type. Impact is addressed in terms of "financial burden," "compliance burden," and "administrative burden." The report of the survey includes recommendations for benchmarks to monitor future regulatory impacts.

Introduction (400 word maximum)

There have been any number of organizations calling in the last year for an assessment of the regulatory environment in which business operates. The Business Roundtable in February, 2011, called for a "government-wide...assessment of the cumulative effect of the total regulatory burden on the macro economy." While acknowledging that individual regulations may appear to be cost-effective and manageable, they assert that the cumulative impact of government regulation is particularly burdensome for small businesses. The market research organization, Focus, reported on July 15 that 41% of the businesses they surveyed feel that government regulation is detrimental to their business (although, curiously, they also report that the major impact is from regulations that are not yet in place—pending tax reforms and the healthcare

regulations that are phasing in). Scott Shane, an economics researcher, in a blog on “Small Biz Trends,” argues that government regulations hurt small businesses in four ways: “First, ... regulatory compliance exerts a disproportionately large burden on small companies because the fixed costs of adhering to rules can be spread out over more revenue in large firms than in small ones. instruments/protocols, and data analysis. Second, government regulations make small businesses less competitive against foreign competition. Third, adding regulations creates uncertainty, which keeps small business owners from investing and hiring. Fourth, new regulations often have unintended consequences.” An earlier position paper by the National Society of Public Accountants (1992) stated “In fact, taken in isolation, the majority of government regulations would appear to serve valid purposes; from protecting the environment to ensuring workplace safety, most federal regulations seem to espouse laudable goals. In application, however, the cumulative burden of federal regulations can quickly overwhelm small business owners.” In other words, there appear to be at least three issues in play—the fiscal impact of regulatory compliance on a business’s profits, the relative impact of regulatory compliance on a business in relation to its competitors, and the differential impact of regulatory compliance on small businesses (which should also have an impact on entrepreneurs and start-up firms).

What little research there is on these issues has been done at a macroeconomic scale, usually focusing on federal regulations and global competitiveness. Acheverri-Carroll and Ayala, in a 2008 study published by University of Texas Austin, concluded that “the literature shows that macro (country-level) studies have failed to arrive at clear conclusions concerning the impact of environmental regulations on competitiveness, technological change, and industrial location.” Most of the research, even research on the impact of environmental regulations on global competitiveness, has found that “differences in ...compliance costs rarely have a serious effect on industrial competitiveness.” There have been a few studies on local economic effects. Kobeissi (2009) found that the Community Reinvestment Act has had a positive effect on new business start-ups and local economic growth (but does not report the impact on the local banking industry). Beale (2004), in a study of government regulation of home-based businesses, looks at both federal and state/local regulations and finds that local zoning restrictions are especially restrictive for growing home-based businesses which need to take on additional employees (but does not consider the community—and property-value—benefits of those zoning restrictions). The Australia Productivity Commission has just (September, 2011) inaugurated a “Business Regulating Benchmarking” study of the role of local government, but it has no results to report yet. The Minnesota Legislature developed an informal survey of small businesses in Minnesota in February, 2010. Of the 63% of the businesses replying to a question about the impact of “regulations” on their business, roughly 25% reported positive impacts to regulation. Of the 75% who reported negative impacts, about 40% of those felt it was harmful because it was “inconsistent, overregulated, unchecked, inefficient, outdated, or unnecessary”; another 30% felt it was too expensive; and 20% thought compliance was burdensome and took too much time. Yet when asked what action the Legislature might take, 54% argued for tax reform (only 16% wanted reduced or better regulations—including lower fees). In other words, the research has been on macroeconomic effects and frequently does not distinguish between different types of regulations or the impacts of regulations on different types of industries. None have focused on the impacts on rural areas compared to metropolitan ones.

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The exception to this is the Irish Business Regulation Survey (2007). This national study disaggregated the types of regulations (and in some cases distinguished between cost of the regulation itself and the cost of complying with the regulation) and the types of industries affected. The study found that “In general, regulation occupies a middle position in terms of the challenges faced by businesses. Labour costs, increased competition and other business costs were more likely to be ranked as the most important challenge, while inadequate infrastructure and staffing issues were less likely to be ranked as most important.”

Methodology and Procedures (800 word maximum)

This project, then, will address the question of the impact of **State and local government** regulations on businesses in Minnesota, disaggregating businesses by **size** (based on number of employees), **location** (rural, Greater MN Metropolitan areas, Twin Cities), and **industry type** (NAICS 2-digit categories). “Impact” will consider the “**financial burden**” (such as the cost of fees and licenses), “**compliance burden**” (time and cost in becoming compliant with a regulation, such as purchasing new technology) and the “**administrative burden**” (time and cost of the administration associated with compliance, such as preparing reports).

The project will be advised by a committee comprised of representatives from the regional development commissions, SBDCs, Chambers of Commerce, the Tribal economic development authorities, EDAM, and DEED. The advisor representatives will meet initially to advise and review the **survey instrument** and to assist in developing a sampling frame. After the survey is completed they will be empaneled again to review the results of the survey and to assist in developing an invitation list for an “expert panel” for identifying **potential benchmark measures**.

The **survey instrument** will be an online survey based on the one developed for the Irish study (that survey has many branching questions—a computer-driven survey will simplify the response pattern for the respondents). The target completion rate will be 1200 respondents (because the responses will be cross-categorized by size, location, and type a large sample will be needed for statistically reliable results). Survey implementation will require pilot-testing the instrument, developing an e-mail contact list of potential respondents, sampling from that list and motivating them to respond, monitoring response rates and following up on non-responders, tabulating & analyzing the survey results, and writing the final report.

Part of the final report will be recommendations for **potential benchmark measures**. These will be quantitative measures which are already collected and reported by other organizations/agencies. These might include measures developed by the US Census (including the census of business) and the State of Minnesota (including the Department of Revenue and DEED). But they might also include data from regular surveys conducted by Chambers of Commerce, the SBDCs and the RDCs, and others. Once a list of potential benchmarks are developed by the advisory committee, a panel of experts will be invited to an online Delphi process to, first, expand or elaborate on the initial list, and then to reduce the list to a manageable number of “dashboard” measures.

Potential Implications (200 word maximum)

While there are a number of anecdotal accounts of the negative impacts of State and local government regulations on business competitiveness, there is very little in the way of careful

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analysis. This study will not be able to answer the question of whether Minnesota’s business climate is “better” or “worse” than neighboring States’, but it will at least provide a clearer picture of where and how State and local regulations affect rural businesses, the magnitude (in frequency, in dollars, and in effort) of the problem, and whether rural Minnesota is disproportionately affected compared to the Twin Cities.

The benchmarks could also provide a baseline for beginning to compare Minnesota’s business environment to other States’. The answer to this question, however, will require modeling the causal links from the regulations through business performance to the benchmarks and norming community performance on those measures. It is possible that retrospective time-series data could be obtained to test at least some of these relationships, but additional targeted survey data may also be required.

Timeline and deliverables (100 word maximum or a small table)

	Oct	Nov	Dec	Jan	Feb	Mar
Advisory Committee formed	X					
Advisory Committee meets (initial survey drafted)	X					
Survey Contact List developed	X					
Survey Finalized/computerized		X				
Survey Pilot Testing		X				
Sampling Frame developed—survey distributed		X	X	X		
Survey Respondents follow-up			X	X		
Survey tabulated/analyzed				X		
Advisory Committee meets					X	
Expert Panel Contact List developed					X	
Benchmark Delphi conducted					X	
Final Report written						X

Project budget

	Grant
Personnel	
Graduate Assistant	\$5,000
Faculty Supervision	\$7,446
Salary Benefits	\$2,085
Grad tuition	\$3,256
Subtotal	\$17,787
Operational	
Travel	\$1,596
Supplies	\$ 100
Subtotal	\$1,696
University indirect	\$ 170
Total	\$19,653

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Graduate Assistant: Spring Session @ \$5,000 stipend

Faculty Supervision: 7.5% @ \$99,281

Salary Benefits: 28% @ Grant salary amount

Graduate Tuition: 9 credits (required by Graduate school)

Travel: Research team (mileage @\$42/day@4 trips; meals @ \$31/day@4 days)= \$292

Advisors (mileage @ \$0.51/mile@200 miles@6 advisers @2 meetings;
meals @ \$31/day @ 6 advisers @ 2 meetings) = \$1,596

University Indirect: 10% of Operational Expenses

Total request (Personnel expenses + Operational expense) = \$19,653