

# Policy Dialogue

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## Expanding Economic Opportunity in Boston

*In connection with the release of a four-city study on urban entrepreneurship, Boston City Council President Charles Yancey addressed a recent Pioneer Forum on steps the city government can take to foster small business development in city neighborhoods. The study, produced by the Reason Public Policy Institute in conjunction with Pioneer and two other think tanks, was directed by Sam Staley, Director of Reason's Urban Futures Program, who also spoke at the Forum, outlining the scope of the study and its findings. The remarks of both speakers are excerpted below, beginning with Staley's overview.*

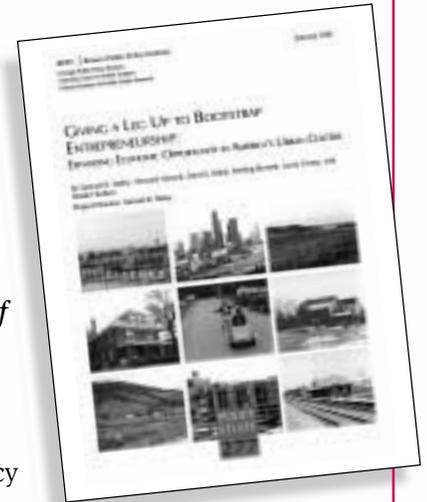
### A Cornucopia of Municipal Business Regulations

**Sam Staley:** About two-and-a-half years ago, we decided at Reason Public Policy Institute to focus on economic opportunity as it relates to public policy. What motivated the study was the notion that we have a persistent decline in inner-city neighborhoods—even if you grant that many downtowns have come back, in many cases, inner-city neighborhoods have not. The project itself was a two-year investigation involving four cities—Los Angeles, Boston, Dallas, and Atlanta. The key questions were:

- Could we come up with an assessment of the regulatory climate for microenterprise in America's cities?
- How do we assess the climate for entrepreneurship?
- What role do regulations play?
- What are cities doing to promote entry-level entrepreneurship?

We believe that regulations play a role that you cannot really understand until you talk to people who have tried to start a business. So we went into these cities and started looking at individual ordinances and regulations to find out what businesses are licensed and what the criteria are for getting that license. In Atlanta, for instance, you need a license to practice astrology, and before you can get one, you have to be certified by the National Federation of Astrologists in Washington, D.C. In Boston, African hair braiding practitioners need a cosmetology license, though very little in African hair braiding has anything to do with cosmetology. In California, manicurists have to have 400 hours of instruction.

What we found is that regulations largely ignore quality and performance. I think of all the findings, this is probably the most important from a policymaking perspective.



The complete study, *Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America's Urban Centers*, is available at [www.pioneerinstitute.org/entre/legup.cfm](http://www.pioneerinstitute.org/entre/legup.cfm).

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*Sam Staley, Director of the Urban Futures Program at Reason Public Policy Institute, was project director of the report, Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America's Urban Centers.*

We need to think of this as almost a principle for reform. In many cases, the intent of regulations is to insure high quality. But city and state laws tend to be a laundry list of codified mandates. We found, for example, equipment mandates—if you are going to start a restaurant, codes require you to have certain types of equipment in place before you can open. Zoning requirements have categorical and very often arbitrary classifications about where you can have a business. They don't focus on performance or on whether a location would improve the business.

In Boston one of the more restrictive examples involves in-home preparation of food that's going to be sold. You have to have a second kitchen to do this legally in the City of Boston. Otherwise, you can be shut down, even if what you're producing in a standard, residential kitchen is perfectly fine.

Regulations focus on compliance in a very bureaucratic way: "This is the law. Follow it. We're going to shut you down if you don't follow it." Understanding and complying with the law has a very high premium. These laws are very detailed, and they can become very cumbersome. Put yourself in the position of someone who doesn't have a law degree and who cannot afford a consultant. Compliance with regulations is a major time-sink for an entrepreneur.

In Georgia, they have the fines codified as well. Dirty tools will cost you \$15 per violation. If you're not licensed, it's \$250. What are the priorities here? Policymakers assume that if you're licensed, somehow your dirty tools are going to be taken care of. I think we consumers are much more concerned about how they handle the day-to-day operation than with what an inspector finds coming in maybe once a year. Of course health and safety ought to be a priority, but they are typically not reflected in the enforcement of these regulations.

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***—Sam Staley***

Regulations also favor existing businesses. Because of the large, up-front compliance costs—whether they're licensing, negotiating zoning codes, or filling out lengthy applications—it's hard to start a business. With fewer new businesses, the result is that you don't get much competition, and so you don't get innovations or improvements in quality that go along with increased competition.

## Differing Approaches to Regulation

We also found vastly different regulatory approaches in different cities. In my studies of taxi-cab regulation, I came up with 18 or 20 predominant things that cities regulate—everything from hours the drivers could be in service to financial reporting to insignia. But there wasn't one city that used more than ten or so. This finding reinforced the notion that you have to understand what's going on locally to really figure out how to go about reform.

Atlanta micromanages in extraordinary ways. Not only do they codify where street vendors can be and how to get the permit, but if you have a second-hand store you have to record every item that you sell and report it to the police. And you have to provide a description of the person who purchased it. Boston did not fare as badly as Atlanta, but we still found a number of areas where there was very heavy regulation. The Pioneer Institute Index of Economic Opportunity, which we pulled into our larger study, gives a sense of the range of businesses and how they're regulated. Overall, we found Dallas had the climate most supportive of entrepreneurship. With the exception of taxi-cabs, Dallas has very few regulations.

Pioneer's White Paper #8, "Economic Opportunity in Boston: An Index of the Regulatory Climate for Small Entrepreneurs" is available at [www.pioneerinstitute.org/research/whitepapers/wp8cover.cfm](http://www.pioneerinstitute.org/research/whitepapers/wp8cover.cfm).

We started the project thinking that we were going to focus only on the local level. We found we couldn't do that, because state laws affect the local business climate for microenterprise. We make a case in the study for city officials to begin interacting with state legislators to reform laws at the state level that affect economic opportunity and the business climate in local communities.

### The Need for Regulatory Reform

I believe that the informal economic activity that goes on day-to-day is critical to the functioning of neighborhoods. We've got official taxi-cabs, then we've got taxi-cabs that aren't marked and operate completely under the radar screen. This informal economic activity, in the long run, can be stagnating for an economy, because if you are underground, you cannot become legal. The risks of becoming legal are extraordinary. If you're cutting hair in your kitchen for your neighbors, any competitor can come in and shut you down for a violation of the law. Once you become formal, you have to adhere to all of these new codes. And if you have employees, there's the federal compliance part of it.

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—Sam Staley

The key to economic growth in the neighborhoods is taking many of these informal businesses and making them formal. And that is going to require regulatory reform. We need to resist the temptation to regulate unless there are clear and demonstrable benefits. Local policymakers need to look at systemic regulatory reform, not just speed up the application process. One-stop shops for permit processing, for example, do make it easier for people to get the applications. It cuts the process from two months to maybe six weeks. That is an improvement, but we need to look at whether many of these laws need to be on the books in the first place.

I would consider sunseting all regulations, as Indianapolis did. Set up a comprehensive regulatory review commission, with the idea that if a regulation is going to survive beyond a certain point, it has to be justified. Indianapolis was able to get rid of a tremendous amount of dead weight in the regulatory code as a result. It became a freer market in the sense of more entrepreneurship as well as more competition.

Very often the regulations have created their own constituencies to perpetuate them, in large part because they restrict entry by competitors. It's very important that the commission itself has a clear purpose and mission, and that you insulate it as much as possible from special interests that have an incentive to keep the system locked down the way it is.

Clearly there are signs of progress in Boston. I think street vending is a good example as is the recent deregulation of taxi medallions or at least providing more for auction. Limousine services in Boston have taken off, in large part because they're less regulated than taxi-cabs, even though the product itself is very similar.

### Creating a Business-friendly Environment in the City of Boston

**Charles Yancey:** I commend the Pioneer Institute for focusing on issues that many people today are ignoring. We must create a business-friendly environment in the City of Boston. This is not a new position for me. Growing up in Boston, I worked in my father's venetian blind and light construction business after school and on weekends. I had my first electoral success at Boston Technical High School when I was elected president of my Junior Achievement company, a small manufacturing concern.



*Responding to the Reason/Pioneer study, Charles Yancey, President of the Boston City Council, outlines his ideas for fostering entrepreneurship in the city.*

Today, in the City of Boston, we are in the midst of a very strong economy, indicated in part by a shortage of critical resources. We have a shortage of office space; there is also a hotel shortage, a tremendous shortage of housing, and a shortage of skilled employees living in the City of Boston. And while we are experiencing perhaps our lowest rate of unemployment in recent history, we still have significant numbers of individuals who are under-employed. It's very common for people in Boston to work more than one job, or to have two—or even more—bread winners in one home just to make ends meet.

Yet there's tremendous prosperity and wealth in the City of Boston, so the question is: How can we share the wealth with sections of the city that are not as connected to the economy or the political structure or even the social and cultural structure as other sections?

The 1990 census indicated that more than 41 percent of the City of Boston 10 years ago was made up of people of color. The Census Bureau admitted that there was an undercount of as much as 4 percent, bringing the number up to 45 percent. We can only speculate about the official results for the most recent census. But it's not beyond the realm of possibility that the City of Boston today is made up of a majority of people of color. Yet nationally Boston is viewed as being hostile, or at best, indifferent, to people of color. That is a serious problem, particularly when we note how important the tourism industry is for the economy of the City of Boston.

The question of how we create expanded economic opportunity in Boston is a critical one for everyone to consider. It calls for some intervention on the part of the policymakers in the City of Boston, and it calls for the creation of more genuine collaborations and partnerships. The city, state, and federal governments have a critical role to play.

Pioneer Institute's focus on regulatory problems in the City of Boston is very accurate. The fact that regulations can be overwhelming is only part of the problem. They are also not very well known. Very often some of our smaller entrepreneurs will work very hard to come into compliance only to learn that now they have another licensing board to deal with that they didn't know about initially. The fact is we don't do a good job of informing businesses of their responsibilities and that is as much a problem as some of the regulations themselves.

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The city government is in a great position to promote economic development. Last year we raised more than \$1.7 billion with fees, property taxes, as well as contributions from the state and federal levels. We should use this awesome power to say to people who want to open businesses in the City of Boston that we're going to make it easier.

- We should provide tax incentives to develop properties that may have been ignored. In the City of Boston, we have literally hundreds of sites that have been contaminated by lead from buildings that have been torn down or with PCBs or asbestos. What better way to clean up those sites than to invite business development—particularly in the commercial areas—and tell the proposed business owner that if you clean up this site, we will give you major concessions with regard to back taxes and even future taxes?

- We can do a lot better job marketing the City of Boston than we're doing today. Second in size only to First Night is an event that takes place the last week of August called the Caribbean Carnival. Five hundred thousand people participate in this event, yet not enough other people seem to know about it. This represents a very important challenge to us; doing more to promote this would have a great economic impact.

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—Charles Yancey

- I believe that there's a great deal of merit in the City looking at its own house to determine which regulations may be outmoded and disadvantageous for the possibility of developing business or improving the quality of life. I look forward to working with the Pioneer Institute and maybe developing a task force made up of appointed and elected officials, as well as folks from the private sector, to take a serious look at it.

- It seems inconsistent that we allow pushcart vendors in Downtown Crossing, but somehow the neighborhoods are not appropriate sites for similar activity. We should promote the commercial districts by allowing pushcart mechanisms. Some pre-existing businesses may feel threatened by that type of enterprise, but after all, we do live in a capitalistic system, and we should have opportunities for competition.

- We have tremendous resources for small business in the City of Boston, but many of our new entrepreneurs or potential entrepreneurs simply are not aware of them. If we were able to develop an effective one-stop system—bringing together agencies from the federal, state, and local governments and financial institutions that provide assistance—that could promote positive economic development in Boston.

The key to success of any economic development strategy is to increase the ownership of businesses by people who live in the City of Boston. Then we can reverse the trend of having dollars going out of the community, and the beneficiaries of economic activity in Boston would be those folks who actually live in the city. Just as immigrants have revitalized many of our commercial districts, we should look toward the people who are already here but still feel left out to stimulate the economy. Let's take the steps that we have within our power to cultivate, nurture, and grow businesses owned by people in the city and improve the business climate throughout the City of Boston.

For the results of a survey of Boston area microentrepreneurs, access [www.pioneerinstitute.org/entre/results.cfm](http://www.pioneerinstitute.org/entre/results.cfm).