

Policy Dialogue

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Regulation of Microenterprises How Much Is Too Much?

A panel discussion organized by Pioneer Institute's new Center for Entrepreneurship recently presented varying viewpoints on state and local regulation of small-scale businesses as part of a conference on "Microenterprise in Boston: Building the Entrepreneurial City of the Future." The panelists were:

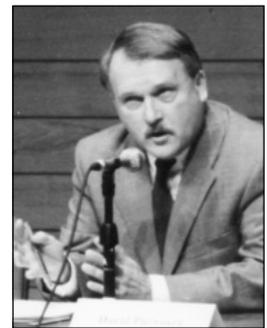
- *David Pietrusza, special assistant to the director of the New York State Governor's Office of Regulatory Reform;*
 - *Thomas Keane, Jr., general partner at Murphy & Partners, who is a former Boston city councilor and currently a columnist for the Boston Herald; and*
 - *Andre Porter, acting deputy director of Boston's Office of Business Development.*
- The following is an edited transcript of the panel discussion.*

Cutting Red Tape: New York's Approach to Helping Entrepreneurs

David Pietrusza: The New York Governor's Office of Regulatory Reform does a lot of things besides regulatory reform. We have an 800 number and get about 75,000 calls a year from people who want to get started in business and who are concentrating on making a product and making a profit. They're not concentrating on what hoops they're going to have to jump through. So we make sure that they are able to get up and running as quickly as possible, and that they do not forget to jump through the one hoop that can stop them from getting going or from making a profit. It's difficult enough to be in business. We don't need to make it harder.

About a year ago we went online with a database, which now has the 1,100 state permits issued by permitting agencies in New York State. Because we had to work across agency lines, we knew it was not enough just to say, "Here are 1,100 permits, can you guess which ones you need?" So based on our experience, we developed 196 different business types—be it a used bookstore, restaurant, bagel shop, gas station, or a convenience store—and included all the permits for each.

Think of a convenience store; maybe it has a gas station, so you've got a license for gas, weights and measures, and underground storage tanks. You're selling milk, so you need a milk license; you're selling tobacco, tobacco licenses; alcohol licenses for



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beer; lottery tickets, you have to approach state government on that; if you have employees, then workers compensation and unemployment insurance come into play. We bring all that together in one place.

Even with it online, you still have to go to maybe eight or ten different agencies for ten different permits. You fill in your name ten different times; you give them your Social Security number ten different times, etc., etc. So Governor [George] Pataki said, "Why do they have to give the same information over and over and over again? Let's try to coordinate this." We have been given marching orders to make sure the information can be shared between agencies and the process expedited.

The Governor's Office of Regulatory Reform also deals with the regulations the agencies issue, which impact not only businesses but service providers and local government. Prior to Governor Pataki coming in 1995, each agency was free to issue

regulations to implement statutes, and boy, did they! We wanted to make sure there was some coordination between agencies. So we asked them: What is the cost to the agency? What is the cost to the regulated party? Have you explored alternate ways of doing it? Is the regulation based on a statute? Does it exceed federal statutes and federal regulations? We don't want to put New York State in a less competitive situation vis-à-vis other states and drive business out.

You can measure that with a cost-benefit analysis. We decided one way that was not too useful is measuring the number of pages of regulations cut. You can cut a lot of regulations that don't have any impact. For example, Lake George in New York State is very beautiful, very clean. In fact, the Village of Lake George draws its drinking water out of it, and because of that, in 1943, the State Health Department issued a regulation that there would be no public bathing in Lake George. Well, this must come as a shock to the people who swim at the state beaches on Lake George. We took that one off the books, but there were no savings; it had no impact on anyone's life because it was never enforced.

We look at the amount of money being saved—which totals approximately \$2.9 billion in one-time annual cost—and also the number of regulations being issued by state agencies. The federal government will only look at rules that have a major impact, like \$100 million. But you can do a lot of damage with a bunch of \$99 million rules. We look at big-ticket items, we look at small-ticket items. Three examples:

- Small entrepreneurs were sending in checks for a few dollars for sales taxes on a quarterly basis, wasting their time and wasting the Department of Taxation and Finance's time. Even the bureaucrats up in Albany wanted to get rid of this one, and they did. That affected 100,000 very small businesses in the state.
- There was a fellow who taught auto mechanics at a prison upstate in Comstock. He moonlighted, in his off hours, operating a garage, which is regulated by the Department of Motor Vehicles. He had to make his records available during normal business hours, which sounds reasonable. But the Motor Vehicle Department inspector said, "Normal business hours are my normal business hours, not yours, not when you're doing business." This guy is in the prison during the inspector's normal business hours, so the Department of Motor Vehicles shut his garage down. We were outraged, the Governor was outraged. We stopped that.

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not on making businesses or service
providers jump through hoops.*

—David Pietrusza

See "How Regulation and Taxation Stifle Entrepreneurship" by economist Walter Walters, Pioneer's 2000 Lovett C. Peters Lecture, online at pioneerinstitute.org/research/dialogues/dia32.cfm.

- The rule for nursing homes said you should preserve the purity of foods, which sounds great, except that a nursing home in Syracuse was combining cream corn and mashed potatoes, and the inspector said, “No, you’ve got to separate them, they’re not pure,” and wrote them up. We stopped that, too.

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Excessive Regulation Discourages Entrepreneurship

Thomas Keane: Several months ago I wrote a column in the *Boston Herald* about how I had to have my two daughters, ages 10 and 8, arrested because they had opened a lemonade stand. I identified 30 rules and regulations that they broke, not the least of which, by the way, is making the lemonade inside our house. They had, in fact, bought the lemonade mix at a grocery store and it was clearly labeled “not for resale.” There was actually one reader who responded and thought I really did have them arrested. My point was that we have an enormous number of rules and regulations that put a stop to even the most innocent of entrepreneurial activities and really hamper the development of entrepreneurship, particularly microentrepreneurship.

Recently I was in Washington, D.C., in my role as a partner in a venture capital firm. I was involved in a fairly large financing deal, which we successfully closed. The legal bills were \$180,000, virtually all of which were related to dealing with a complex set of regulations and rules. We could pay that because this was a large project. But quite frankly, all of those rules and regulations apply whether you’re doing a deal that’s worth \$10 million or a small business expected to make maybe \$50,000 over the next year. It is those small entrepreneurs who simply can’t deal with those regulations.

In the city of Boston, for example, one can easily spend 12 months going through the various processes involved simply to open a restaurant in Allston or Brighton. There are multiple permits that are required. Those in the know hire a lawyer to work the system, those who are not in the know don’t, and that means they either don’t start up a business or they just go underground.

It’s not an accident that we have these rules and regulations. It is certainly true that sometimes they just grow, but the truth is a lot of them are put in place for what people perceive to be good reasons. Some of them are put in place because those currently in a particular business want to prevent those who are not from getting into it. I think most of the people here know about the circumstances with taxi cabs and hair braiders—in both cases rules and regulations effectively block new entrants.

Other regulations are really designed to give parties who claim to have an interest in that business an opportunity to have their say. Most obvious, I suppose, would be community involvement or community input in, for example, a Zoning Board of Appeals hearing. If you’re opening a restaurant, you probably need to get a zoning change. The neighbors may have something to say. If you’re going to have a television, you’re going to have to get a special permit, which cannot be granted by the zoning board. The list goes on and on.

Read “Squeeze out the lemonade vendors” at www.bostonherald.com/news/columnists/tom06022000.htm. The article is also reprinted in Pioneer Institute’s *Quarterly Digest*, Summer 2000. For a copy, call Pioneer at 617-723-2277.

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—Thomas Keane

Read the story of hair braider Nana Gogo “Weaving through a regulatory maze” in the premier issue of *Pioneering Spirit* online at www.pioneerinstitute.org/research/spirit. The issue also includes an interview with Thomas Keane.



Thomas Keane, a general partner at Murphy & Partners, is a columnist for the Boston Herald and a former Boston city councilor.

Fixing these problems is not easy. I think that Boston Mayor Thomas Menino, who first came to office really aware of those problems, has found out just how complex it is because there are established interests out there who want to preserve the status quo and are very resistant to any kind of change. It will take, I think, in the real world of politics, not simply the recognition that this is good policy, but some real political push to change things, rationalize the rules, and make it easier for entrepreneurs.

Out of 13.1 million entrepreneurs, 10.8 million have never received any bank financing—classic microentrepreneurs. Ninety percent of all jobs in this country come from businesses with 100 or fewer employees. The rate of economic growth, if you look across different countries, is largely driven by the level of entrepreneurship. There is a compelling case to be made for microentrepreneurs; it's more than just an economic case. For the entrepreneur, being involved in a business—your own business—means that you have some level of pride, some level of control over your life, and some self-realization. Most critically, particularly if you're at the lowest rung of the economic ladder, it provides you with a way to climb up that ladder and to get into the mainstream of American society. It's something that has happened for generations and something that we should not be discouraging.

It sounds like the right kinds of changes are being made in New York. Those are exactly the kinds of changes we need to see, not only in the city of Boston, but at the state level as well.

Boston's Office of Business Development: A Clearinghouse

Andre Porter: About two years ago, Mayor Menino had an idea to streamline the city's services to small businesses. At that time, a number of programs were scattered throughout different city departments and agencies. He recognized that in order for startups and entrepreneurs to be able to get as much information as quickly and as efficiently as possible, he had to have some central department. Out of that idea came the Office of Business Development. So, delivering better services to the business community is our mission. We have, over the years, developed a number of different programs, and probably the cornerstone is the Boston Main Streets initiative.

Boston has about 24 distinct neighborhood commercial business districts and 19 Main Streets districts. Main Streets fosters and encourages the business districts in the neighborhoods in a number of ways. One is physical improvement of the buildings. Obviously a city as old as Boston has old buildings. One of the challenges is how to

bring some of the older buildings up to a certain aesthetic code, as well as address health and safety code issues. We grant money to businesses to develop facade improvements. We have our own in-house design staff who will guide them from the beginning concept straight through to the ribbon-cutting when the project is complete. That is part of "one-stop shopping"—one location offers a number of different services, all aimed at achieving that final goal, which is the betterment of the neighborhood district.

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—Andre Porter

For the results of a survey of Boston area microentrepreneurs, access www.pioneerinstitute.org/entre/results.cfm.



Andre Porter is acting deputy director of Boston's Office of Business Development.

The City of Boston's Office of Business Development's website is www.cityofboston.com/business.

The Boston Office of Business Development is one of 51 agencies in the *2000 Directory of Microenterprise Organizations in Massachusetts*, compiled by the Center for Entrepreneurship and available online at www.pioneerinstitute.org/entre/directory.cfm.

We can, either through direct assistance or through service contracts with neighborhood organizations, assist an entrepreneur with the business plan and with taxes. If you have a legitimate legal business idea, we can do all that anyone could possibly do to make it a reality.

One of our newer programs is a legal services clinic. Boston has a rather large immigrant population, and for many in this group there are not only the normal entrepreneur issues and hurdles, but also language issues and just getting comfortable with the process. How do I start a corporation? What entity fits best for me? How do I sit down with a landlord and design a lease that fit my needs? These are some of the issues we're trying to address with our legal service clinic.

We have neighborhood business managers, and they are each assigned four or five districts in the city. Their job is to be in those districts, on the sidewalks, talking to businesspeople, getting a sense of what it is that they need and, of course, delivering those services.

We are direct lenders through some of our affiliate organizations. We're reviewing applications on a couple of projects that are in the 20-plus million dollar category. Some of them, in order to make them financial feasible, need below market financing for a piece of the debt. Through one of our sister agencies, we issue our own bonds, and that can give a project an added boost.

We are also fortunate to have one of the federal government's economic enhancement zones right here in Boston. It cuts a pretty wide swath, from Dorchester all the way through Chinatown and South Boston. And with that enterprise zone comes a separate pot of funds we are using to develop business programs, as well as do commercial real estate projects. We've fostered three projects on the waterfront for the fish processing industry to keep the companies in Boston because they do provide low-skill but well-paying jobs.

We provide a number of different services to established businesses. If you want to grow, expand, or need to find another location, we will help you. Through a program called site finder, we identify available buildings in Boston that fit your needs and give you the names of the landlords. One of our programs sends members of our zoning department out to the legal services clinics to address any zoning issues.

It's one thing to have programs, another thing to have people know about them. We put a lot of emphasis on marketing. The marketing is almost as big an issue as the program or service itself.