

Bladen Journal

Time to Lighten the Load for Business Growth

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October 12, 2022

Time to Lighten the Load John Hood October 12, 2022 North Carolina is a pro-growth place — the best state in which to do business, I hear — and yet we continue to saddle our job creators with heavy regulatory burdens that discourage capital formation and investment in our state. I don't mean to suggest we haven't made some progress over the past decade.

The General Assembly enacted a series of regulatory reforms. Some localities have made it a priority to slash rules, permitting times, and other forms of red tape. When it comes to regulatory burdens, however, we still compare unfavorably with many of our competitors.

According to the Cato Institute's latest study, North Carolina ranks 26th in regulatory freedom — better than the likes of Maryland (47th), New York (48th), New Jersey (49th), and California (50th), to be sure, but worse than Georgia (7th), South Carolina (13th), Tennessee (16th), and Virginia (18th). Policymakers, activists, and journalists often treat regulation as if it were just a “big business” concern, but the practical effects extend well beyond corporate boardrooms.

While large enterprises can certainly incur significant expense from environmental, health or safety rules, the compliance costs are far more onerous for small companies that lack specialized knowledge or inhouse counsel. And if they try to “wing it” to save money and then run afoul of the rules, they have a harder time absorbing the resulting legal fees and fines.

Now consider another set of affected parties: individuals who'd like to start a new business but can't get the required licenses and permits to do so. Russ Sobel, a professor at The Citadel in Charleston, has researched this issue extensively. One of his studies found “a clear and strong relationship between the economic freedom scores of states and their levels of net entrepreneurial productivity.”

What happens when overly burdensome regulations suppress business starts, expansions, and investment?

Among the consequences are lower and more unequal incomes among the general population. In a 2022 paper published in the *European Journal of Political Economy*, economists Dustin Chambers and Colin O'Reilly agreed that "regulations disproportionately impact small businesses and stifle entrepreneurship," examining a large set of economic data from all 50 states from 1997 to 2015. They found that each 10% increase in federal regulation was associated with an approximate 0.5% increase in income inequality. Applying their findings to North Carolina alone, Chambers and O'Reilly estimated that since 1997, regulation had increased the number of residents living below the poverty line by about 256,000.

The same logic applies to state and local regulation. We need it, of course. North Carolinians deserve clear air and clear water, for example, and because these are commons rather than personally owned property, some kind of government intervention is required to protect public health and safety. All too often, however, the costs of imposing and complying with regulation greatly exceed any reasonable expectation of public benefit.

That's why the agencies that issue rules, and the elected officials who authorize them to do so, need to apply rigorous cost-benefit tests to any proposed regulation. Many of North Carolina's occupational-licensing laws wouldn't come close to passing such a test, by the way. We rank especially poor in this area, and in the regulation of alcohol-related businesses (40th in the Cato study in both cases). Cost-benefit analysis is far from the only policy we need to curtail excessive regulation in our state.

As my John Locke Foundation colleague Jon Sanders has written, the North Carolina General Assembly should also take the interests of small businesses into account when writing rules, require just compensation when regulations reduce or eliminate the profitable use of private property, speed up North Carolina's "review and sunset" process for outmoded regulations, and repeal ambiguous laws that surrender too much policymaking authority to unelected agency heads. Although political debate and news coverage about it might suggest otherwise, regulatory reform isn't some hobbyhorse for special interests. It is very much in the general interest of North Carolinians. We need much more of it.