

Testimony before the United States Congress on behalf of the



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*Testimony of*

***Andrew M. Langer***

***President***

*Before the*

***The Senate Committee on Small Business  
Hearing on Small Business Regulatory Burdens***

**The Context of Regulation:  
Reducing the Incremental Costs**

*on the date of*

***November 18, 2010***

Chairwoman Landrieu, Ranking Member Snowe, and members of the Senate Small Business Committee:

On behalf of the thousands of small-business owners who support the Institute for Liberty, thank you for the opportunity to discuss with you the burden of regulatory paperwork imposed by the federal government and to offer some insights about how to improve the way in which the federal government goes about reducing the amount of paperwork filled out by America's small businesses each year.

The Institute for Liberty is a 501(c)(4) advocacy organization based in Washington, DC. We focus on public policy issues impacting small business and entrepreneurship in the United States, and work hard on informing and activating small business owners on these issues. We believe wholeheartedly that America's small businesses and America's working families are inextricably intertwined—and that as America's small business sector suffers, the rest of the economy does as well.

I have testified before Congress nearly two-dozen times on these issues. Prior to coming to the Institute for Liberty, I handled regulatory affairs for the National Federation of Independent Business, the nation's largest small business association. I have, for nearly a decade, been in near-daily contact with small business owners throughout the nation, and am currently authoring a book on the subject, "The War on Small Business."

In September, I attended a celebration of small business' most powerful statutory ally, the Regulatory Flexibility Act, and heard Chairwoman Landrieu's statements regarding the current state of America's regulatory burdens. I appreciate your invitation to come before you to discuss these burdens in more detail. My testimony is going to cover two main areas: a presentation of the general regulatory and paperwork burden at both the macro and microeconomic levels, and then offer recommendations of changes to federal law and policy which will work to reduce these burdens.

## **Introduction**

I believe that at the outset, it is important to lay out just who we are talking about here. When IFL talks about small business, we are generally not talking about businesses which fit into the larger end of the Small Business Administration's definitions for small business. Ninety percent of small businesses have fewer than 20 employees. Moreover, the typical small business employs ten people and reports gross sales of between \$350,000 and \$500,000 per year.

Clearly, we are talking about the truly small businesses—businesses whose priorities and abilities to handle regulatory challenges are greatly different from their larger counterparts. Being a small-business owner means, more times than not, you are responsible for everything (ordering inventory, hiring employees, and dealing with the mandates imposed upon your business by the federal, state and local governments). That is why government regulations, and the paperwork they generate, should be as simple as possible. The less these businesses spend with “government overhead,” the more they can spend growing their business, employing more people and growing America's economy.

Unreasonable government regulation, especially onerous paperwork burdens, continues to be a top concern for small businesses<sup>1</sup>. Regulatory costs per employee are highest for small firms, and small businesses consistently rank those costs as one of the most important issues that advocates ought to work to change. In the past, I have testified before Congress on the series of reports commissioned by the Small Business Administration's Office of Advocacy, estimating the regulatory compliance costs for firms with fewer than 20 employees.

Ten years ago, that cost averaged \$6,975 per employee, per year, and from 2000 to 2005, that cost rose roughly 10% to \$7,647 per employee, per year (PE/PY).<sup>2</sup> Given what we knew about new pressures coming from the Congress post 2007, and the change in administration in 2009, we had speculated that those costs would grow at a slightly higher pace between 2005 and 2010.

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<sup>1</sup> In NFIB's publication, *Problems and Priorities*, paperwork ranked 8<sup>th</sup> out of 75 major problems faced by small business.

<sup>2</sup> Crain, W. Mark, *The Impact of Regulatory Costs on Small Firms*, 2005, <http://www.sba.gov/advo/research/rs264.pdf>

But we were unprepared for the true shock at SBA's 2010 report. Though outside organizations had estimated that the cost of regulations had skyrocketed from a historic high of \$1.1 *trillion* annually, we were stunned to see the SBA confirm that federal regulatory costs now top **\$1.75 Trillion** and that the PE/PY cost is now **\$10,600!**<sup>3</sup> This means that for one of America's average small business owners, with ten employees, those costs now approach a total of \$106,000 annually. That represents a rise of an **unprecedented 37%!** This is due in no small measure to the continued growth of the regulatory state: according to the Competitive Enterprise Institute's Wayne Crews, mandates have brought an average of approximately 4,000 new rules each year<sup>4</sup>

Though I will discuss this in greater detail, one cannot ignore these costs when talking about America's economic vitality. Because few people are aware of this number, because it is not something talked about in the popular media, when confronted with this stark reality, many (especially my colleagues on the left) are unwilling to believe that this is possible. But the reality gets even more stark: because our economy is \$14 trillion in size, our regulatory costs are now **roughly 12.5% of our total GDP**. This cannot be ignored as we are trying to find solutions to our economic doldrums.

**Assume for a moment that we could cut regulatory costs by 30%. Every average, 10-person small firm would save, on average nearly \$32,000, enough to hire one additional person (with benefits). Assuming that there are anywhere between 6 million and 24 million small businesses (depending on who you talk to)—this means that we could, without spending a dime of additional federal money, create millions of jobs. With an unemployment rate at approximately 9.5%, creating 10 million additional jobs through cutting regulatory burdens is something we have to consider!**

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<sup>3</sup>Crain and Crain, *The Impact of Regulatory Costs on Small Firms, 2010 Edition*  
<http://www.sba.gov/advo/research/rs371.pdf>

<sup>4</sup> 4,101 final rules in 2004, 3,943 final rules in 2005. Crews, Clyde Wayne, *Ten Thousand Commandments, 2006 edition*.

We do not think it is overstating the case to say that S. 3024, The Job Impact Analysis Act<sup>5</sup>, incorporated a lot of the recommendations IFL and others have made over the years. In terms of recognizing the important role that regulations have played in putting a dampening effect on the nation's economic vitality, the provisions of S. 3024 go a long way towards addressing those concerns. We are especially encouraged by S. 3024 finally giving the SBA's Office of Advocacy the independent budgetary line authority that it has long needed. Provided that Congress does its proper role in oversight of SBA operations, giving Advocacy its own line in the budget ensures that the operation will be properly funded, regardless of whether or not an administration sees that office's mission as vital.

Moreover, I have, in just about every appearance before Congress, fought long and hard for greater administrative emphasis on the opinions levied by the Chief Counsel for Advocacy and his staff. While we would still like to see greater deference for Advocacy's opinions codified, the S. 3024's directive that agencies are now required to respond directly to the comments made by Advocacy is a tremendous step in the right direction. There is no other organization, either within or without the federal government, that does the research that the SBA's Office of Advocacy does (though IFL is working hard to be replicate Advocacy's work outside of the federal government). They are one of the most important, if not *the* most important voice for small businesses on regulation within the Administration, and when they speak, the agencies *must* respond!

### **The Shift in Regulatory Costs**

But those numbers drop when you get above 20 employees—on average by as much as a full third. Why such a stark contrast? NFIB's Research Foundation has done numerous surveys on paperwork and regulatory compliance, and it has found that businesses with between 20 and 35 employees hire a regulatory professional. Usually, this is someone with expertise in labor regulations and human resources, as these are the rules with the most general application. Also, as the business grows, measures taken to comply with federal regulations can have their cost spread around a larger pool of employees. These "economies of scale" reduce those per-employee costs as well.

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<sup>5</sup> <http://www.opencongress.org/bill/111-s3024/show>

However, until those businesses reach that magic number, it is generally the small business owner, that owner's spouse, or some trusted employee within the business who is responsible for ferreting out regulatory obligations and figuring out what needs to be done in order to be in compliance. Because these individuals do not have the prior regulatory experience or training, it takes far longer for them to become aware of their obligations under the law, and just what those obligations entail.

### **The Macroeconomic Costs, and the “Context” of Regulation**

The average small business cost of nearly \$106,000 per year for regulations, the approximately \$10,600 per employee per year cost, those are the microeconomic figures—what each individual small business faces. But the problem is truly staggering when one looks at the general regulatory state.

While the Office of Information and Regulatory Affairs reports a cost of \$44 billion<sup>6</sup> for all major rules, this presents only a part of the regulatory snapshot. OIRA only reviews *major* rules, the dozen or so rules from a previous 10-year period whose annual cost is in excess of \$100 million. But it's not the “major” rules that are most damaging. I have testified before on regulation being “death by a thousand pinpricks” for small business. It's not one single rule that is the culprit, but the thousands of smaller rules with incremental impacts that present a slow-bleed for America's small business. Those rules add up to that annual \$1.75 trillion—an amount essentially equivalent to the entire federal budget!

Paperwork itself is a tremendous culprit. In the Office of Management and Budget's 2005 report on paperwork, the Information Collection Budget (ICB),<sup>7</sup> they denote an increase of the paperwork burden faced by all Americans of 441 *million* hours. Sadly enough, represents an increase overall of only 5.5 percent!<sup>8</sup>

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<sup>6</sup> [http://www.whitehouse.gov/omb/inforeg/2006\\_cb/2006\\_cb\\_final\\_report.pdf](http://www.whitehouse.gov/omb/inforeg/2006_cb/2006_cb_final_report.pdf)

<sup>7</sup> <http://www.whitehouse.gov/omb/inforeg/infocoll.html>

<sup>8</sup> ICB at i.

In terms of the paperwork burden imposed by regulations themselves, NFIB's Research Foundation has conducted in-depth studies of the problem being faced by small businesses. They concluded overall that the cost of paperwork averages roughly \$50 per hour. In addition, the following conclusions were reached<sup>9</sup>:

1. The individual(s) completing and maintaining paperwork and records in a small business is dependent on the subject matter of the paperwork and the size of the firm. Owners most frequently handle paperwork and record-keeping related to licenses and permits (55 percent of firms), purchases (46 percent), and clients/customers (46 percent). They least frequently deal with financial (27 percent) and tax (12 percent) records. Three of four pay to have someone (another firm) outside handle their tax paperwork. Paid employees customarily do most of the paperwork and record-keeping in about 25 – 30 percent of firms. Employees are much more likely to do so in larger, small businesses than in the smallest ones regardless of subject matter (except tax). Unpaid family members do the paperwork in less than 10 percent of cases.
2. The cost of paperwork also varies by subject matter and firm size. The more paperwork and record-keeping that must be sent outside, the more expensive the paperwork and record-keeping. Owners of larger small firms pay higher average prices per hour because they are more likely to send their paperwork to outside professionals and because the value of their time on average is higher.
3. The estimated average per hour cost of paperwork and record-keeping for small businesses is \$48.72. By subject matter the average per hour cost is: \$74.24 for tax-related, \$62.16 for financial, \$47.96 for licenses and permits, \$43.50 for government information requests, \$42.95 for customers/clients, \$40.75 for personnel, \$39.27 for purchases, and \$36.20 for maintenance (buildings, machines, or vehicles).
4. The typical small business employs a blend of electronic and paper record-keeping. Less than 10 percent use paper exclusively and a handful use only electronic means. The type of record most frequently completed and maintained on paper is licenses and permits.
5. No single difficulty creates the government paperwork problem. The most frequently cited problem is unclear and/or confusing instructions (29 percent). The second most frequently cited difficulty is the volume of paperwork (24 percent). Duplicate information requests (11 percent) place third, followed by maintenance of records that ordinarily would not be kept (10 percent) and requests for inaccessible or non-existent information (9 percent). Twenty (20) percent could not decide.

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<sup>9</sup> NFIB Research Foundation National Small Business Poll, Vol. 3, Issue 5, *Paperwork and Recordkeeping*, 12-03, [http://www.nfib.com/PDFs/sbpoll/sbpoll12\\_2003.pdf](http://www.nfib.com/PDFs/sbpoll/sbpoll12_2003.pdf)

While the use of computers by small businesses and small-business owners has certainly helped reduce the burden of regulations, technology alone cannot solve the problem. More than filing forms and storing copies, paperwork requirements involve understanding what the government wants and how they want it, gathering the necessary information and organizing it properly, determining what to keep and for how long, etc. Then there is the cost. Even with the most efficient computer equipment, documentation is not cheap. People must organize and input the necessary data, and people are expensive.

According to research by the NFIB Research Foundation, 92 percent of small businesses use computers in some aspect of their business. Eighty-two percent of small businesses have internet access, and of those, 57 percent have high-speed internet access. Half of the businesses that use the internet use it to find out regulatory information, and the smaller of small businesses are more likely to use the internet to educate themselves. They use it for specific searches, and to sift through information.<sup>10</sup>

But taken in the context of the ICB, the costs continue to be startling. If you only look at the average costs, then at the most macro of economic levels, the cost of the *increase* in paperwork alone amounts to nearly \$21.5 *billion* annually!<sup>11</sup> The total cost of paperwork therefore is nearly half a *trillion* dollars (roughly \$409 billion).<sup>12</sup>

Some people might argue that the increase in paperwork from the ICB is only 5.5 percent overall. But that only serves to mask the real issue: 441 million hours is an enormous amount of time—time that drags on everyday Americans, and \$21.5 billion is real money for real small businesses.

While some might quibble that this is only a marginal increase—one cannot deny that the baseline number is a huge one. A system that measures its paperwork burdens in the billions of hours and in which citizens' spending on paperwork is roughly equivalent to 85 percent of what

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<sup>10</sup> NFIB National Small Business Poll Volume 4, Issue 8, "Telecommunications,"  
<http://www.nfib.com/object/telecomm.html>

<sup>11</sup> \$48.72 X 441 million hours equals \$21,485,520,000

<sup>12</sup> \$48.72 X 8.2 billion hours equals \$409,248,000,000

the nation spends on defense each and every year is a system doomed to collapse<sup>13</sup>. It requires careful examination—a recognition that a serious problem exists and then taking the appropriate steps to see that problem solved. But there is no “magic bullet” here. While tax paperwork is responsible for a substantial portion of the paperwork burden, there is no single regulation responsible for the lion’s share of that burden.

As I said earlier, it’s the thousands of regulations, with their incremental costs, that create this “weight”. Because regulations are created and expanded without regard to their context, this is simply going to continue. What is meant by context? Regulations are, essentially, created in a vacuum—generally without regard to overall regulatory burdens created by the agency, certainly without regard to pre-existing regulatory costs. Each regulation is measured and judged based on its own individual costs.

The problem is that taken individually, each incremental cost can appear inconsequential. A new regulation by an agency might add 7.5 hours of training time per employee per quarter of a year, and taken alone, that might seem to be a harmless mandate. But let’s assume for a moment that this agency already has regulatory requirements that cumulatively require 150 hours of time. Assuming a 7.5 hour work day, that’s already 20 days of time that one agency’s regulatory burden consumes. Another 30 hours of training per year amounts to another 4 days of time—a twenty percent increase.

Further, if we assume that a full-time equivalent’s “work year” is roughly 250 days, we’re talking nearly ten percent of an employee’s time is being taken up for the mandates of one agency. But no small business is regulated by only one federal agency, of course. There could be EPA, OSHA, Transportation, Labor, and a variety of other federal regulators. If four of these agencies each pose time burden of 24 days, that’s 96 days that have now been lost to federal regulatory mandates—leaving 154 days for the business of the small business.

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<sup>13</sup> In FY2005, DOD actually spent just over \$475 billion – about \$66 billion more than it cost Americans to fill out their paperwork for the federal government.

Time is one of a small business' most-precious and most-finite resources. Every day, every hour is important. But because, by comparison, federal agencies have nothing but time, they have no compunction against taking an hour here, and an hour there. And like the Washington proverb, "a billion here, a billion there, pretty soon you're talking about real money," the hours that the federal government robs from these businesses does add up.

We therefore believe, and will discuss in our recommendations, that some measure of accounting for this needs to be done.

### **Recommendations for Regulatory Reform in Congress**

We are gratified that Congress is once again picking up the mantle of regulatory reform to help small business. In the last several years, a number of laudable steps have been made, recommendations that I, and others, have made to Congress—the Codification of Executive Order 13271, and the awarding of a separate budgetary line-item to the Small Business Administration's Office of Advocacy. Individualizing Advocacy's line item ensures its independence and viability, and codifying 13272 strengthens small business protections by setting out a formal working relationship between OIRA and Advocacy. Of most direct importance to small businesses, Congress has mandated that agencies publish their compliance guides concurrently with each new final rule.

Imagine the frustration that a small business owner would face—they would be required to follow the mandates within a final rule on its date of enforcement, but the guide to how they might comply might be months away! Thankfully, Congress has stepped in to fix that problem.

In terms of solutions, there are two ways of looking at the problem: you can reduce the number and scope of proposed and existing regulations themselves (the supply side); and at the same time you have to look at how to change the time needed to figure out how to comply with them (the demand side).

On that former side, we have a series of recommendations for legislation dealing with proposed regulations, the burdens they impose, as well as for reviewing agency practices with regards to

new regulations and regulations already on the books. We believe that the following are the basic principles that ought to be contained in any legislation proposed:

1. **Modify Section 610 of the Regulatory Flexibility Act:** Section 610 of the Regulatory Flexibility Act (RFA) mandates that federal agencies develop a plan for the periodic review of regulations that have or will have a significant economic impact on a substantial number of small entities. Unfortunately, agencies either fail to engage in the proper reporting, or when they do, their reports do not have any useful information. This is partially a problem of oversight, and partly a problem of guidance, and while the Office of Advocacy has done an excellent job in training agencies in RFA compliance, without stringent reporting guidelines, there is a limit to what Advocacy can accomplish.

Modifications to Section 610 ought to specifically outline what should be included in such reports. Section 610 ought to be expanded to cover the review of all rules (currently, such review only cover regulations the agency considered “economically significant” at the time they were proposed. Section 610 reviews ought to be judicially reviewable as well. Also, OIRA should be required to report on reviews that were undertaken in the previous year, when they annually report to Congress on the costs and benefits of regulation.

2. **Include Indirect Economic Impacts in Regulatory Review:** One of the ongoing deficiencies in both the RFA and the Small Business Regulatory Enforcement Fairness Act (SBREFA) has been that *indirect* economic effects on small businesses go ignored in these evaluations. Either ancillary impacts aren’t taken into account, or industries not directly affected but nevertheless impacted by the rulemaking are ignored. In one hearing on regulatory burdens held by the Small Business Committee on November 15, 2007, Joe Rajkovicz from the Owner-Operator Independent Driver Association testified on this very issue. He suggested that Congress ought to require, “agencies to consider the impact of its actions on small businesses who are not those in the regulated community” but who are impacted by the agency action.<sup>14</sup>
3. **Expand Small Business Protections to the IRS, CFPB and other Agencies :** As discussed above, the IRS accounts for the largest share of the regulatory and paperwork burdens faced by small businesses, and while IFL suggests that the “bright line” between the OMB and the IRS be removed by the administration, Congress can also play a distinct role. The RFA’s jurisdiction over the IRS must be clarified. Moreover, the rules over which agencies must have their regulations subjected to SBREFA panels, similar to those faced by proposed OSHA and EPA regulations, must be expanded. We applaud the work done to date by Sen. Snowe and others on expanding SBREFA protection to the CFPB, and would like to see that work officially adopted as federal policy. Most importantly, small business protections must expressly cover all new information collection requests (ie, questions) and not just new forms, as the IRS currently interprets the law.

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<sup>14</sup> Testimony of Joe Rajkovicz before the House Small Business Committee, November 15, 2007 at 3.

4. **Require that Agencies Publish the Name and Direct-Dial Phone Number For A Regulation's Principal Author:** One of the most problematic situations for a small business owner is knowing who to turn to when a question arises. Though single agency points of contact for regulatory questions has been helpful, there are certain questions which require an in-depth expertise which these contacts might not otherwise have. We believe that the person primarily responsible for a regulation's shepherding through promulgation would have the greatest expertise on a regulation—and if a small business owner is going to be required to follow a regulation, then it's only courteous and fair that the person who wrote the regulation be made regularly available for questions about that regulation arise.
5. **Financially Penalize Agencies Who Ignore Their Regulatory Flexibility Obligations:** As was testified to in the past, many small business owners and their representatives believe that agencies only pay scant attention to their obligations under the law. Part of the reason for this is that there is no penalty when the agencies treat their obligations in a pro-forma manner. We recommend that should it be found that they affirmatively ignored their obligation, that some financial penalty accrue to the agency, possibly by cutting that agency's travel budget.
6. **Expand the Purview of the Regulatory Fairness Boards to Include Review of Agency Compliance with Regulatory Flexibility Laws:** Currently, there exists no body which engages in an across-the-board, comprehensive review of agency compliance. Some have discussed putting this review in the hands of Congress, some have discussed creating an independent commission to engage in such a review. We believe that the Regulatory Fairness Program administered by the National Ombudsman for Small Business at the SBA has been a rousing success. Small business owners use this program and have gotten great results from the personnel at the SBA. We believe that these successes ought to be built upon—and that expanding this program's scope to include RegFlex compliance review would be appropriate.
7. **Mandate That Each Agency Annually Publish An Accounting of Their Total Regulatory Cost:** As mentioned earlier, currently the only annual accounting of regulatory costs done by the federal government is performed by OIRA, and it only looks at the costs of major regulations for the previous 10 years. If we want to get an honest, accurate look at regulatory burdens, then each agency ought to be accounting for its fair share. This would actually simplify matters for both OIRA and members of the public who are interested in assessing these costs: OIRA could still publish its report on the costs of major rules, but they could also take the numbers put forth by each agency as to the costs of *all* of their rules (major and not-so-major), add them up, and come up with a far-more-accurate figure for annual regulatory costs. If agencies have to do annual budgets, and regular audits of their books and business practices, then they ought to also report on what impact they're having to the economy at large.

8. **Mandate that New Rules Assess Not only Cumulative Regulatory Costs for Small Business, But Present Those Costs in the Context of their Overall Regulatory Burden:** We believe this is critical. If we all agree that it is not just “major” rules, but the incremental costs of all rules that create this burden for small business, then we have to assess costs within context. Agencies are forced to continuously restate the burden that they already impose, and have to then show how they are about to add to that burden. This ought to be done in a variety of metrics as well: dollar costs, costs in man-hours, costs in days lost.
  
9. **Mandate the Adoption of Comparative Risk Assessment as a Regulatory Prioritization Tool:** One of the single greatest problems with the federal regulatory state is that there are no measures to force agencies to actually prioritize their mandates. While Congress drives the statutory process, agency discretion is still left in terms of how they prioritize public policy considerations. The use of benefit-cost analysis, while helpful, only tells the financial side of the story. Comparative risk assessment, because it allows us to compare and contrast policies throughout and across agencies, gives us a clearer picture as to what the most pressing public policy problems are. An attempt was made in the middle-part of the decade to incorporate CRA as a decisionmaking tool—that effort needs to be renewed.

### **The Business Gateway: Helping Businesses Learn How To Comply**

We also must take a different approach towards simplifying the methods by which small businesses learn what regulations they are obligated to comply with, and how they ought to comply. To its credit, the federal government has recognized that technology can provide a number of solutions to the federal regulatory and paperwork burdens. Two separate tracks, very different, and important in their own way, are being pursued: one dealing with increasing participation and making the formulation of rules more streamlined (e-docketing); the other meshing technological tools with the problem of regulatory understanding, compliance, and paperwork burdens (the Business Gateway).

It is unfortunate that the federal government initially got their priorities backwards, focusing first on e-docketing and e-democracy rather than putting more resources towards the Business Gateway. IFL supports the federal government in attempting to open up the regulatory process to more perspectives—e-docketing promised to make it easier for small businesses and individuals to offer their thoughts on proposed rules. By offering a “real world” perspective, career civil servants can make regulations that are smarter and more meaningful. What’s more, electronic

docketing is an excellent tool for those doing the regulatory decision-making, in that it makes it easier for regulators to break down and analyze comments.

But as discussed earlier, the problem is that too many small businesses are spending too much time doing federal paperwork already, and it is simply too much to ask of them right now to take additional time and resources to comment on a complex regulatory proposal. Sure enough, there are some businesses and individuals that will comment, and the regulatory state can only benefit from their expertise, but the executive branch must reduce burdens elsewhere if they hope to invest a more substantial set of the population in the rulemaking process.

This is why we believe that more resources should have been directed earlier on to the Business Gateway project (once called the “Business Compliance One-Stop” or BCOS). The Business Gateway is a good step in this direction, and a greater emphasis must be placed on the continued development and implementation of this system, and NFIB is heartened that the second generation of this project came on line in October of 2007 (NFIB has been and will continue to be an active participant in the development and implementation of this program).

Everyone involved in regulation: the regulated community, activist stakeholders, members of Congress and their staffs, the federal agencies and their personnel, all must ask the same question—what is it that we want from the regulated community, in the end?

The answer, at least in our estimation, is simple: we want the regulated community to understand its responsibilities when it comes to regulatory compliance and comply with those regulations that apply to them. What’s more, Americans want to be in compliance with the law. They want to keep their workers and their communities safe and secure, and the last thing they want is for a government inspector to show up at their offices and fine them for some transgression.

Unfortunately, the regulatory state is so complex (consider in your minds, for a moment, the wide expanse that is the Code of Federal Regulations, and just what a small-business owner would need to do to figure out his responsibilities) that it is next-to-impossible for any small business to be in compliance with all of the regulatory requirements he faces .

But imagine a system in which a small-business owner could enter some simple information about his business: his industrial classification code, a zip-code, number of employees, etc. As discussed above, 92 percent of small businesses have computers, most with internet access (the majority of it high-speed), so the vast majority of businesses could do this if they so chose.

Then the system takes that information and spits out each and every regulation that applies to this business, along with simple compliance information. It would be even better if this system could provide an on-line access for small businesses to submit forms, should they choose to submit them that way (the operative word being “choose” – not mandate).

Yes, this is an ambitious idea. But in an era in which huge databases can be accessed from thousands of miles away in a safe, secure and fast manner, it is not an impossible task. The current iteration of the Business Gateway, Business.gov, is a solid step in the right direction. But it must do more, far more, in terms of offering a simple way for businesses to determine what their regulatory responsibilities are and to make living up to those responsibilities as easy as possible.

What it will take is leadership from Congress: funding, oversight, and the political will to see it happen.

If Congress is serious about reducing paperwork, then it must do something about making the fully-functional, fully-realized Business Gateway a reality. Once that is established, businesses know their responsibilities, and compliance is made as simple as possible, then businesses will not only have the time and resources to devote to helping the government craft smarter regulations, they will have an incentive to be invested in the process.

Not all businesses would do it (not all businesses have computers), so the option to find out about regulations in the traditional manner would still have to be in place. In fact, there are a

number of small businesses that will never be on computers<sup>15</sup> (which is why small business advocates advance the position that when agencies desire to work with the public via computers, it is a voluntary and not mandatory program). But such a system would be far superior than that which is available to small-business owners today, and a tremendous leap in seeking greater regulatory compliance.

Until then, however, the benefits of technology, whose primary purpose is e-docketing, accrue mostly to those who work in government.

### **The Intermediate Step**

While we believe that the Business Gateway will be a tremendous tool for truly improving compliance and reducing burdens on small businesses, we recognize that there are a number of interim steps that will need to be taken, steps that will also require tremendous leadership on the part of the Congress.

Success of the Business Gateway will hinge on the quality of the information it provides: simple explanations and easy-to-understand-and-follow step-by-step instruction on how to comply. This means a wholesale restructuring of the information that is conveyed to the public: a comprehensive review of all regulations mandated by the agency, the review of all guidance documents, manuals, and other publications the citizenry uses to determine what their obligations are and how to go about them.

Then the agency will have to start building from the ground up: creating plain-language guides to each of their regulatory regimes. Guides that are as short as possible. Guides that are easy to find, take a common-sense approach to compliance, walk small business owners or their employees through the compliance process, and offer them clear suggestions in what they ought to be doing to be in compliance with that particular regulation.

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<sup>15</sup> In fact, in conversations with NFIB field personnel, I learned that organization has a number of members who are Amish small-business owners. Clearly, these are small businesses that will never be using computers in their daily work, and any move to make computer communications mandatory (or any other sort of mandatory electronic interaction) would be grossly unfair to them.

There are no two ways about it: this will be a Herculean task. Nevertheless, it must be undertaken. Heretofore, the agency has balked at such reviews, and it's not difficult to understand why. They get no credit for it, simply put. Why put resources into developing easy-to-understand compliance guides when Congress and activist stakeholders are going to ask them why they didn't spend more resources on investigations and prosecutions.

So it is thus incumbent upon Congress to give the EPA the support it will need to do this. What is important is that in the near term, before the Business Gateway is in its final form, the Agency will be developing useful tools that can be utilized by small businesses as soon as they are made available.

### **Conclusion**

There are many metaphors used to describe how incremental costs can have catastrophic results, like "the straw that broke the camel's back." Or how an individual feather can weigh next-to-nothing, but a ton of feathers still weighs the same as a ton of bricks.

The same holds true with regulation. A single regulation, taken in isolation, might have virtually no cost. But the body of regulation costs the American economy over a billion dollars annually. A single federal paperwork mandate might take fifteen minutes. But all told, these mandates take over 8 *billion* hours.

Something has to be done. Congress has to step in and take a look at both the continued regulatory burden that pours out of federal agencies, focusing on tailoring new regulations that harm small business, changing regulations that are already on the books, and working with the agencies to assess costs and create good tools to help small businesses fulfill their obligations under the law.

Thank you again for the opportunity to testify. I look forward to answering any questions you might have.