

The Facts About **Small Business Friendly Regulation: Model Legislation for States**

- The role of the SBA's Office of Advocacy is to reduce the excessive regulatory burden placed on small business. While focusing on federal regulations, Advocacy welcomes the opportunity to work with state leaders on their regulatory issues.
- President Bush has an active and aggressive small business plan that includes tearing down regulatory barriers to entrepreneurial success. Enforcing the Regulatory Flexibility Act (RFA) is central to the success of this commitment. By working with federal agencies to implement the RFA, the Office of Advocacy in 2003 saved small businesses over \$6 billion in foregone regulatory costs that now can be used to create jobs, buy equipment, and expand access to health care for millions of Americans.
- The Office of Advocacy has drafted model legislation for consideration by states that mirrors the federal Regulatory Flexibility Act. Its intent is to foster a climate for entrepreneurial success in the states, so that small businesses will continue to create jobs, produce innovative new products and services, bring more Americans into the economic mainstream, and broaden the tax base.
- Successful state-level regulatory flexibility laws, as in the model legislation, should address the following areas: 1) A small business definition that includes most small businesses, 2) A requirement that state agencies perform an economic impact analysis before they regulate, 3) A requirement that state agencies consider less burdensome alternatives that still meet the regulatory goals, 4) Judicial review so that the law has teeth, and 5) A provision that forces state governments to periodically review all its regulations.
- Excessive regulation can be reduced, and the economy improved, without sacrificing important regulatory goals such as higher environmental quality, greater travel safety, better workplace conditions, and increased family financial security.
- Many states have some form of regulatory flexibility laws on the books. However, many of these laws do not contain all of the five critical elements. States with less effective regulatory flexibility laws would benefit as much as the states with no such laws, if they adopted this model legislation.
- According to a 2001 study funded by the Office of Advocacy, *The Impact of Regulatory Costs on Small Firms*, by Dr. Mark Crain and Dr. Thomas Hopkins, small businesses spend nearly \$7,000 each year per employee just to comply with federal regulations and mandates. That's 60% more than large firms.
- Small businesses are vital to the health of states' economies. They are 99.7 percent of all businesses, employ over half of the workforce, produce 51 percent of the private sector output, and provide significant ownership opportunities for women, minorities, and immigrants. Healthy small business also means a growing tax base.
- For text of model legislation and a chart of current state laws visit www.sba.gov/advo.