

Small Businesses Decry Regulation

By SARAH E. NEEDLEMAN

Federal regulations are designed to protect workers, the public and the environment from unsafe or unfair business practices. But they can sometimes have the unintended consequence of stifling growth.

According to research released last year from the Small Business Administration's Office of Advocacy, it costs about \$2,830 more for firms with less than 20 employees than those with 500 or more employees to comply with government regulations on a per-employee basis. In specific areas such as tax and environmental compliance, firms with 20 to 499 employees also pay significantly more than large firms.

While some economists dispute the magnitude of the disparity, they all agree that small businesses bear a greater burden than larger ones in adhering to government regulations.

"Small firms don't have the resources in-house to figure out how to comply," says Radwan Saade, a regulatory economist for the SBA's Office of Advocacy. "Economies of scale dictate that it's easier for large businesses to comply."

U.S. businesses of all sizes have long been required to comply with federal regulations in areas such as taxes, employment, the environment and economic output. They range from product- and workplace-safety laws to employee health-care rules added recently by the Patient Protection and Affordable Care Act. Small businesses also typically must comply with a host of state, county and city government regulations.

Last year, the Environmental Protection Agency enacted a ruling designed to protect consumers from lead-paint poisoning, which can lead to nerve disorders and memory loss. It requires companies that repair or renovate homes and schools built before 1978 to test for lead and use plastic sheeting, respirators and other lead-safety materials, among other practices.

An analysis of data from the U.S. Government Accountability Office by the Heritage Foundation, a Washington think tank, finds 43 of the 100 "major" rules published in the Federal Register last year burden the private sector, compared with 23 in fiscal 2009. A "major" rule is defined as one that has an annual effect on the economy of \$100 million or more, stifles competition and results in higher costs.

Economists attribute the increase to a number of factors, including a perceived need for greater government oversight following the financial crisis of 2008.

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To be sure, many federal regulations don't apply to all types of businesses, and some exempt the smallest of firms. In a nod to the burden placed on the business community, President Obama in January issued an executive order for a government-wide review of existing rules to remove outdated and redundant regulations. In April, he signed a measure to repeal a provision in the new health law that would have required businesses to file paperwork every time they bought more than \$600 worth of goods or services.

The so-called 1099 provision was included in last year's health-care law to help cover the cost of the new plan. In November, President Obama called it "too burdensome for small businesses" adding that "it's probably counterproductive."

But, despite the review, many small-business owners say federal regulations are holding back growth. For Allen Ash, co-owner of novelty-toy maker Almar Sales Co., the costs of complying with federal product-safety rules included in laws such as the Consumer Product Safety Improvement Act and the Federal Food, Drug, and Cosmetic Act have negated any gains in profits that the 135-person company has seen as a result of the improving economic environment.

The new requirements have more than doubled the amount of work required to get the company's goods on store shelves. To meet current standards, the small New York manufacturer of children's costumes and party trimmings now tests each of its products five times, up from two a few years ago.

Mr. Ash hired a compliance director in 2008 just to keep up with government requirements. The next year, even as he laid off 20% of the company's staff due to slumping sales, he added three more compliance workers to oversee strategies for satisfying federal product-safety rules.

"A large business might already have a department to handle paperwork burdens," while a small business is likely "to take someone off another task" to fulfill government obligations, says James Gattuso, a senior fellow at the Heritage Foundation. "It costs you more to stop doing what you're doing and fill out paperwork."