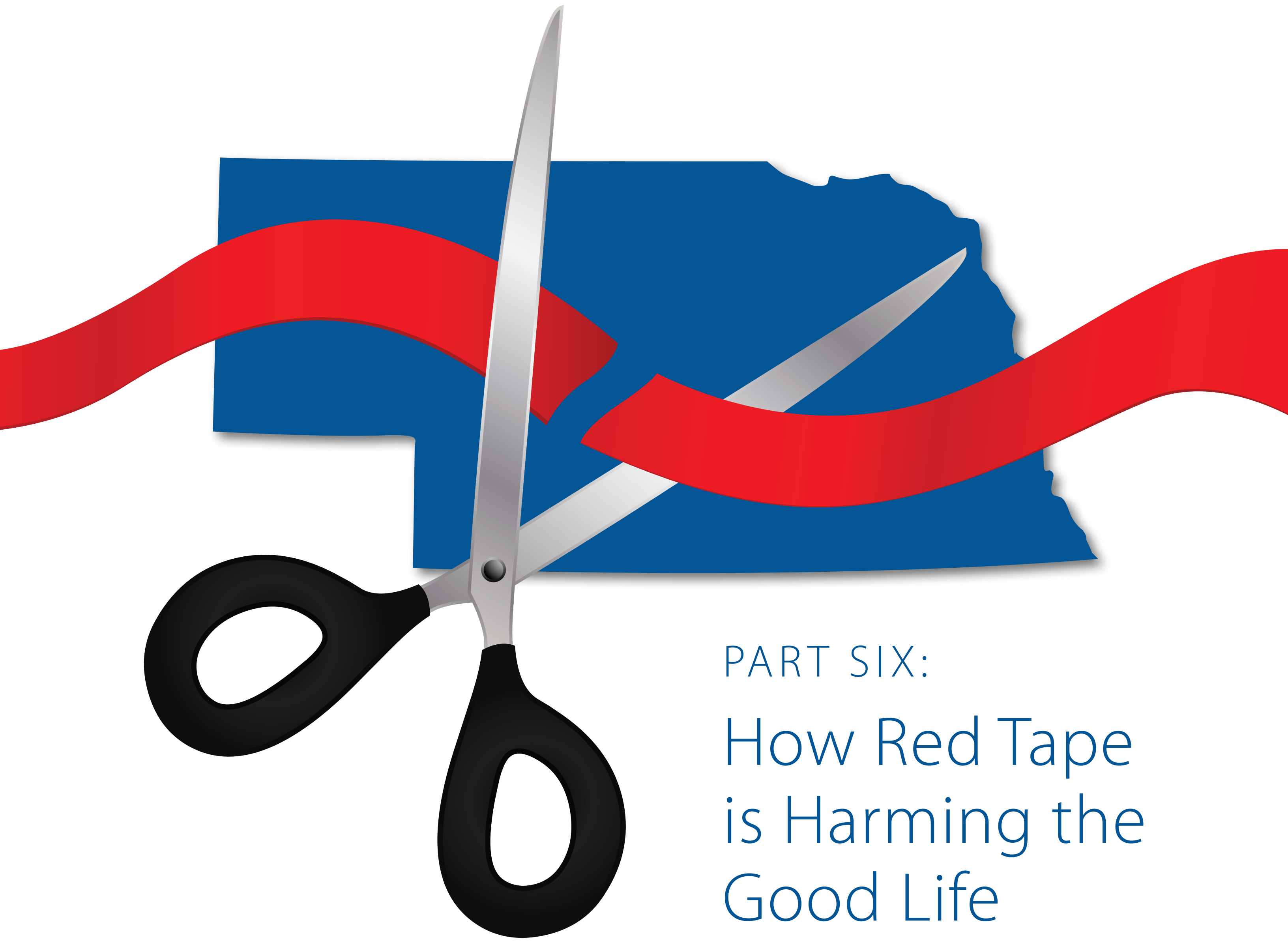
Platte INSTITUTE for economic research

Removing Barriers in Nebraska



PART SIX: How Red Tape is Harming the Good Life

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A good job rewards hard work

and is needed to live the Good Life in Nebraska. Despite Nebraska's historically low unemployment rate, job creation in Nebraska has fallen below the national average over the last decade. In fact, Nebraska ranked 29th in total employment growth between 2009–2014, falling far behind most of our competitor states, including Arizona, Colorado, Florida, and Texas.

Employment growth is one of the strongest measures of a robust state economy. Entrepreneurship and the growth of new businesses are primary drivers of job and income growth. Every state has many innovative and entrepreneurial residents. But public policies have a definite influence on how many of those individuals will actually choose to apply their talents and become a for-profit market entrepreneur.

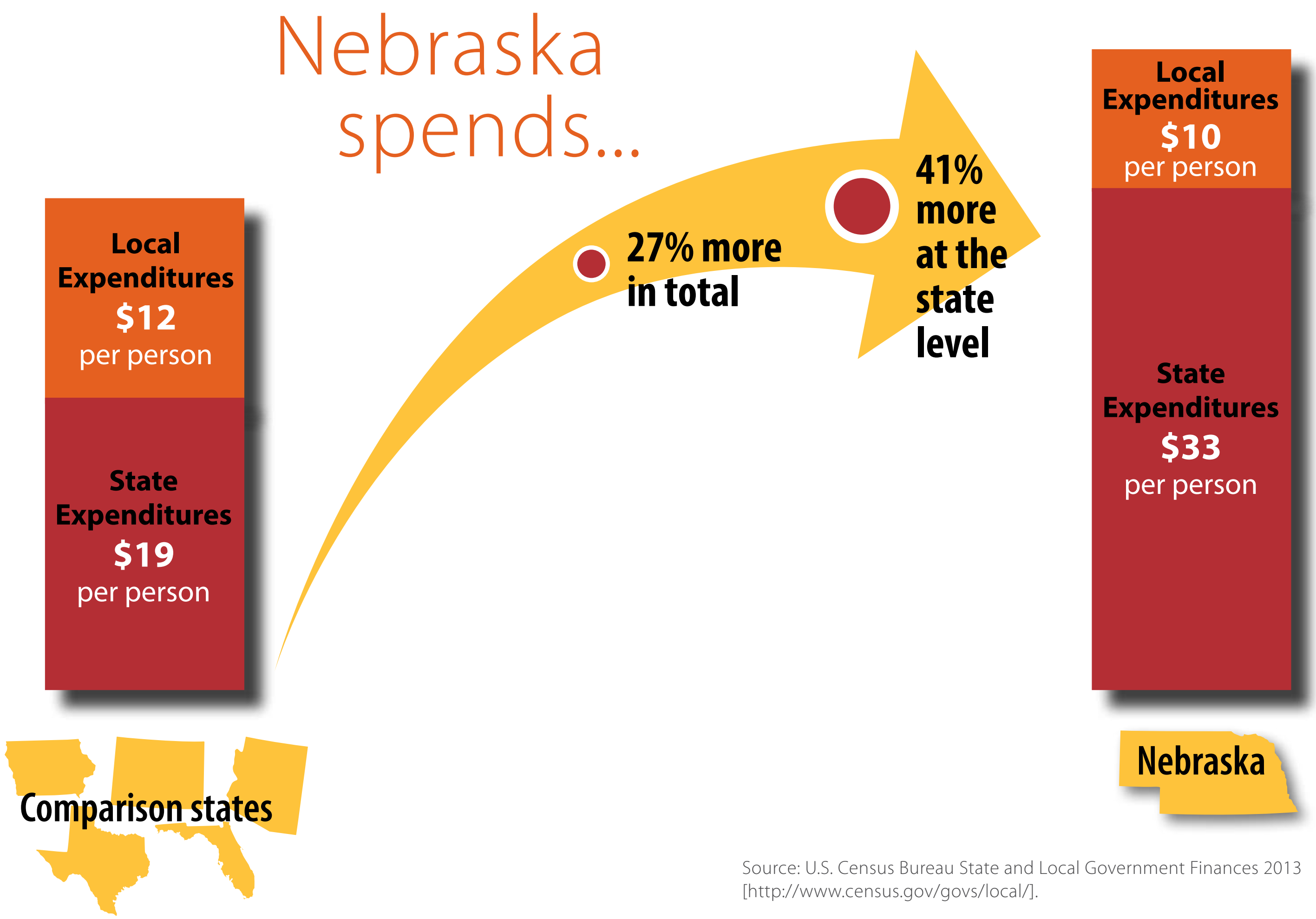
We know Nebraska taxes its residents and businesses more, on average, than the states we compete with for income, employment, business, and population growth.[1] We also know Nebraska's high taxes discourage economic growth and job creation. But there is another set of government policies that place a hidden tax on employers, workers and consumers that increase the difficulty of making a living in Nebraska.

This hidden tax is the cost of overly-burdensome regulation. Too much bureaucratic red tape is putting new and better jobs out of reach for hardworking Nebraskans.

Federal, state, and local regulations, in addition to occupational licensing requirements, have a substantial impact on economic activity. The National Association of Manufacturers (NAM) estimates the aggregate cost of U.S. federal regulations alone is upwards of $2.028 trillion annually.[2] The Mercatus Center at George Mason University calculates that federal regulation reduces the U.S. economy's Gross Domestic Product (GDP) growth by 0.8 percent annually,[3] costing everyone meaningful gains of income and living standards over time. Though 0.8 percent may appear insignificant, it is actually greater than the average annual GDP growth most states experienced from 2004–2014.[4]

FIGURE 1

NE Spending on Regulatory Policy vs. Economic Competitors



Source: U.S. Census Bureau State and Local Government Finances 2013 [http://www.census.gov/govs/local/].

Nebraska's regulatory code is having the same harmful effect. In fact, the Nebraska Register contains 43 chapters and thousands of pages of regulations that increase the cost of doing business in our state. Not only does increased regulation result in lower job creation and higher prices for consumers, it also hits taxpayers. States with more regulations spend more on regulatory enforcement. While this is not a large category of spending when compared to the entire state budget, it does provide some measure of the hidden costs of regulatory compliance burdens. If a state is spending more than average on inspection and regulation, it is generally a sign its regulatory climate should be reformed.

On average, Nebraska's state government spends over 40 percent more on regulatory policy than its economic competitors in Arizona, Colorado, Florida, Iowa, and Texas.

In addition to higher spending on regulatory policy than its competitor states, Nebraska also overturns a larger percentage of regulations challenged in court. Specifically, according to state supreme court records compiled by regulation researchers, Nebraska's courts overturned roughly 37.8 percent of regulations, substantially higher than the 20-27 percent range for Colorado, Florida, and Iowa, although roughly similar to Texas.[5] A larger percentage of regulations being overturned generally points to a less than ideal system for oversight of regulations, which may be in need of modernization.

Every state has some odd rules left over from previous points in history. North Platte's city code once contained contradictory and outdated rules such as it being illegal to wash your car on the street, but not your horse. This prompted the North Platte City Council to budget $20,000 to employ American Legal Publishing to re-codify the existing code of ordinances with the goal of eliminating obsolete ordinances.

Requiring sunset provisions to be paired with regulations would automatically cause a regulation to expire if not renewed. This creates a natural process for getting older, outdated, and inefficient regulations off the books. If regulations have secondary effects or unintended consequences that are only apparent after the regulation is imposed, sunset provisions force these regulations to prove their merits to remain in place.

While some regulation will always be essential, regulatory policy should not unnecessarily limit entry into occupations or industries in a manner that lessens competition.

One area of Nebraska's regulatory system that creates these barriers for entrepreneurs is the state's occupational licensing laws.

Almost 200 different jobs[6] in Nebraska require a government license, and many workers cannot afford the expensive and lengthy licensing requirements. In a national study, Nebraska fell in the worst of the five categories for the number of occupations requiring licenses.[7] Licensing requirements that exceed essential standards of public safety are designed to give an advantage to existing practitioners over new entrepreneurs.

In many cases, Nebraska's rivals and our neighboring states have more reasonable licensing requirements. For example, cosmetologists or barbers have to take 2,100 hours of training in Nebraska, which can cost up to $20,000, while most states require 1,500 hours or less. A massage therapy license in Nebraska requires 1,000 hours of training, while most states require 500-700.

These inconsistencies place higher costs on Nebraska's workforce, discouraging low-income workers, small business people, relocating military families and workers, and ex-offenders from pursuing career or business opportunities that require licensing. Because these disincentives to work and invest reduce competition in numerous professional fields, consumers also pay higher prices for these services.

A study by the Heritage Foundation found that reforming Nebraska's occupational licensing laws could save the average household $942 a year.[8]

Ridesharing services like Uber and Lyft provide a clear example of the change competition and regulatory reform can have on the marketplace. It was not more than a couple years ago that the transportation network companies were threatened with legal action by state regulators.[9] The Legislature's wise response in creating a legal framework for the industry has substantially increased consumer choices in transportation while reducing prices for getting around.

In the same way, occupational licensing reform can foster countless opportunities for Nebraskans looking to find or create better jobs. In the 2016 legislative session, a bill to deregulate natural hair braiding (LB898) passed without opposition in the Unicameral. The new law permits natural hair braiders to practice their profession without need of a state cosmetology license, which was previously a felony under state law.

Reform of occupational licensing does not mean a complete absence of regulation. A range of alternatives to occupational licensing exist when a complete repeal is possible, as with hair braiding. These could include targeted consumer protections, business inspection, insurance or bonding requirements, registration, or private certification. Where policymakers feel public safety demands the maintenance of job licensing, improving the existing licensing requirements to match the country's most reasonable requirements would help provide a more robust, competitive environment for entrepreneurship.

Not all regulatory barriers are created at the state level, though. In the City of Lincoln, the food truck industry is seeing surprisingly slow growth, as city regulations prohibit food trucks from selling their food in public parking areas.[10] The rule has created a sharp contrast with Omaha, where a growing number of successful food trucks operate.

Workers, entrepreneurs, consumers, and even possibly tax collections in Lincoln, have suffered because of this barrier to entry. While there is broad agreement that some regulation is needed for public health and safety, the food truck ordinance is not being enforced for the purpose of protecting the general public, but to shield existing brick-and-mortar restaurants from new competitors.

Above all, in discussions of regulation, policymakers must guard against "regulatory capture," which occurs when rules imposed on the marketplace are not used for the public's benefit, but to gain advantages for private interests.

Throughout the Removing Barriers in Nebraska series, we have discussed how Nebraska compares to the states it must vigorously compete with for population, employment, income, and business growth. Compared to its rivals, Nebraska taxes and spends too much, and attempts to remedy the problem by picking winners and losers rather than improving its flaws. The state provides working families with too few choices in education, and imposes regulatory burdens on job creation that hinder upward mobility.

But the state has much to be proud of that it can build upon as it seeks to grow. Nebraskans believe in the promise of the Good Life. Regrettably, many Nebraska families still find themselves searching for it in other states.

Some observers believe that Nebraska's natural features place it at a disadvantage for economic growth relative to currently faster-growing states. But there are potentially excellent opportunities for entrepreneurs in every environment and setting. Policymakers can't change our natural disadvantages, but they can change Nebraska's policies that exacerbate our challenges with lower job, population, and business growth.

Removing the barriers to economic growth through tax, spending, education, and regulatory reform in Nebraska can make the Good Life possible for more of our citizens once again. When more policymakers are guided by the goal of growing the output of Nebraska's entrepreneurial economy, and our leaders study the policies that have led states to these successes, we can ensure a brighter future for the children and grandchildren of all Nebraskans.

Endnotes

1 Platte Institute, "Removing Barriers in Nebraska, Part Three: How Our Taxes and Spending Compare", July 27, 2016, http://www.platteinstitute.org/research/detail/removing-barriers-in-nebraska-part-three-how-our-taxes-and-spending-compare.

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3 Bentley Coffey, Patrick McLaughlin, Pietro Peretto, "The Cumulative Cost of Regulations", April 26, 2016, http://mercatus.org/publication/cumulative-cost-regulations.

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5 Brace, Paul and Melinda Gann Hall, "The State Supreme Court Data Project", http://www.ruf.rice.edu/~pbrace/statecourt/, and Sobel, Russell S. and John A. Dove, "Analyzing the Effectiveness of State Regulatory Review," Public Finance Review, forthcoming.

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10 Platte Institute, "City of Lincoln Should Remove Barriers to Food Trucks", June 15, 2016, http://www.platteinstitute.org/blog/detail/news-release-city-of-lincoln-should-remove-barriers-to-food-trucks.

RECOMMENDED READING

The Tax Foundation, the nation's leading independent tax research organization, recently published *A Twenty-First Century Tax Code for Nebraska*.

The report outlines tax reform options for Nebraska and makes an excellent companion to our brief on Economic Development versus Economic Growth.

Read their report at:
PlatteInstitute.org/TaxFoundation

Removing Barriers in Nebraska

Stay informed with our entire Removing Barriers in Nebraska series at

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PART ONE: Why Growing Nebraska Matters
RELEASE DATE: JUNE 29

PART TWO: Where Are Nebraskans Moving?
RELEASE DATE: JULY 13

PART THREE: How Our Taxes and Spending Compare
RELEASE DATE: JULY 27

PART FOUR: Taking Lessons on Education Options
RELEASE DATE: AUGUST 24

PART FIVE: Economic Development vs. Economic Growth
RELEASE DATE: SEPTEMBER 14

PART SIX: How Red Tape is Harming the Good Life
RELEASE DATE: SEPTEMBER 28

OUR MISSION

To leverage our research to advance policy solutions that remove the barriers to growth and opportunity in Nebraska. By conducting vital research and publishing timely reports, briefings, and other material, the Platte Institute will assist policy makers, the media and the general public in gaining insight to time-proven free market ideas.

A non-profit foundation, the Platte Institute relies on the resources and innovative thinking of individuals who share a commitment to liberty and the best possible quality of life for Nebraskans.

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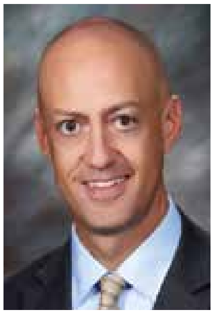
Platte Institute Chief Executive Officer



JIM VOKAL

Jim, a lifelong Nebraskan, adds to his record of public service a solid business and financial background. He has an unwavering commitment to the Nebraska community through key civic board positions.

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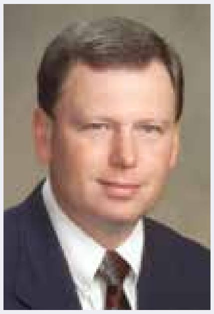
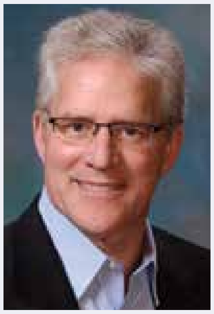
Chairman of Pinnacle Bancorp, Inc., a private family owned bank holding company. He serves on the board of directors for the University of Nebraska Foundation, Methodist Health Systems, and Ameritas Life Insurance Corporation and is involved with the Knights of Ak-Sar-Ben organization.



J. PATRICK KEENAN

Managing member of Keenan Management LLC. Past chairman of the board of Great Plains Regional Medical Center, a director of the North Platte Surgery Center, and formerly appointed by the mayor to the Quality Growth Fund Committee.



DAVID E. COPPLE

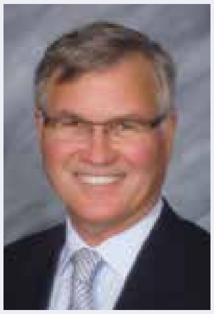
President of Copple, Rockey, McKeever & Schlecht P.C., L.L.O. A graduate of the University of Nebraska School of Law, he presently serves on the President's Advisory Council for the University and the Nebraska State Highway Commission.

DJ EIHUSEN

President/chief executive officer of Chief Industries, Inc. Serves on the board of directors of the Nebraska Chamber of Commerce & Industry and the University of Nebraska at Lincoln College of Business Administration Dean's Advisory Board.

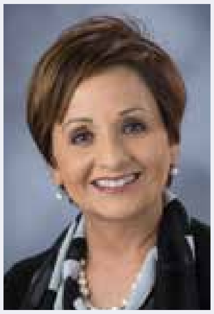
OWEN PALM

President and CEO of 21st Century Holdings in Gering. A current commissioner of the Nebraska Department of Natural Resources, former president of the Twin Cities Economic Development Corporation, and a trustee of the Chadron State College Foundation.



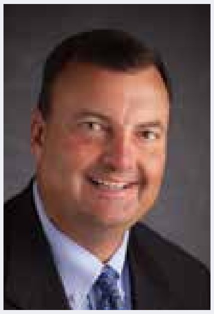
JEFF DINKLAGE

Owner and operator of Herman Dinklage, Inc. A fourth-generation cattle feeder, he served on the Nebraska Cattle Board for four years and was a bank director for twenty years. He is also an avid Husker fan and enjoys flying.



NANCY JOHNER

CEO of Pathfinder Support Services, formerly state director and deputy chief of staff for U.S. Senator Mike Johanns, director of Nebraska's Division of Children and Family Services, and under secretary of the U.S. Department of Agriculture's Food, Nutrition and Consumers Services agency.



BRYAN SLONE

Over 30 years experience including governmental and private practice tax experience in the United States and Germany. Co-founding partner of a law firm practice in Berlin, Germany, and a tax attorney with Koley Jessen in Omaha.