



Business Intelligence

Federal Law Fails to Stem SMB Red Tape



By [Keith Girard](#)

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There's nothing new about government red tape. Charles Dickens wrote about it in 1869, when petty clerk David Copperfield dryly observed that Britain was "bound hand and foot" by it. Not much has changed. Government red tape is still a huge obstacle facing small businesses.

The Small Business Administration (SBA) has created such programs as the Business Gateway Initiative to give businesses a single access point to federal forms and other tools to help comply with federal regulations. But like most government snafus, the problem goes deeper than that. Congress tried to do its part when it passed the Paperwork Reduction Act (PRA) in 1980, specifically to cut red tape. The result? Government paperwork has *increased* by 400 percent since then. That's no laughing matter to the countless small business owners who must wade through mounds of government forms to run their businesses.

Take, for example, Drew Greenblatt, president and owner of Marlin Steel Wire in Baltimore. He's in a tough business, competing with foreign manufacturers in a global economy. His firm, which employs 27 people, has managed to grow 33 percent in the last two years and has tripled over the past decade. That's no small achievement, especially since Greenblatt must comply with regulatory requirements from more than six federal agencies, from the IRS, EPA, and OSHA to the Department of Commerce and the State Department, not to mention state and local governments.

"I compiled all the forms my business fills out in a single year, and when piled on top of each other, they are more than six feet tall," he told the House Small Business Committee. The committee hasn't revisited the PRA since 1995, and its hearing this week is the first step in a comprehensive review of the measure.

The review is long overdue. The costs of complying with federal and state regulations are hitting small businesses harder than ever. One study commissioned by the SBA found that per-employee regulatory costs for businesses with fewer than 20 employees was \$7,647, or 40 percent more than the \$5,282 cost per worker for firms with more than 500 employees. Costs are higher because small businesses don't have the staff to handle the paperwork, nor the economies of scale to spread the costs.

In manufacturing, the disparity is even greater, Greenblatt noted. The cost per employee for firms with fewer than 20 employees was \$21,919, or 118 percent higher than the \$10,042 cost per employee for medium-sized firms (20-499 employees). And it was 150 percent higher than the \$8,748 cost per employee for large firms (500 or more employees).

A separate study by the National Association of Manufacturers (NAM) found that regulatory costs for U.S. manufacturers were 31.7 percent higher in 2006 than similar costs among the nation's nine largest trading partners: Canada, Mexico, Japan, China, Germany, the United Kingdom, South Korea, Taiwan, and France.

The federal government's attempt to address the problem, as well intentioned as it might be, has been Sisyphean. To combat the flood of red tape, the PRA established the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB). Under the current system, federal agencies must conduct a cost-benefit analysis and seek public comment before creating new paperwork requirements, and then the OIRA must sign off on the request. The OIRA, of course, has pursued its mandate earnestly, so why is government red tape still mounting?

For one, the rate at which Congress is passing new laws (and paperwork requirements) is exceeding the office's efforts to cut red tape, according to a recent OMB study. "I suspect that even as we sit here talking about reducing the paperwork burden, other committees in both Houses of the Congress are considering new legislation that would require new information collections," Sally Katzen, a former OIRA administrator, told the small business committee.

To make matters worse, the Bush administration has repeatedly cut the OIRA's budget. Today, its 50-member staff is 44 percent smaller and its budget is \$7 million less (adjusted for inflation) than a decade ago. "It is remarkable that the administration would acknowledge the paperwork burden on small businesses is increasing, yet say the PRA is working and offer no recommendations to fix it," says House Small Business Chairwoman Nydia Velázquez, D-N.Y.

All of this translates into lost productivity and slower growth for small businesses. "I cannot purchase another 75,000 watt welder, or hire a \$15-per-hour person to work on the production floor," says Greenblatt. "We would be more competitive if we hired that person. And he or she would have a job, a job here in America." Instead, "we are diverting cash from hiring more workers to paying vendors to shuffle government paper."

Even Rep. Steve Chabot, R-Ohio, the committee's ranking Republican, acknowledged that the administration is not doing all it can to address the problem. "It remains an open question of whether or not the Paperwork Reduction Act is meeting the laudable goals of minimizing paperwork burdens on the public," he said in his opening statement. The administration could go along way toward improving the situation by ending its pattern of benign neglect and giving the OIRA the resources it needs to enforce the law.

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