

It's time to save the golden goose



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— Arizona Chamber of Commerce



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California Shows What Not to Do in Area of Government Regulation

By Glenn Hamer
The Arizona Chamber of Commerce

In January, I wrote about efforts in the Legislature led by Rep. Andy Tobin to improve Arizona's regulatory environment. His bill, HB 2260, seeks to install some long term fixes on Arizona's regulatory environment to make the state more attractive to employers tired of grappling with endless reams of red tape.

Thankfully, Arizona is already on the right track when it comes to making smart regulatory reforms. When she assumed office last year, Gov. Brewer, mindful of the costs of businesses attempting to comply with potentially costly regulations in the face of a deep recession, issued a moratorium on new rulemaking. The Legislature, to its credit, extended that moratorium in last year's budget.

This morning, HB 2260 passed the House with bipartisan support and garnered two-thirds of the votes in that chamber, putting it one step closer to reaching the governor's desk. Rep. Tobin's bill, once in law, can be an effective tool in Arizona's economic development toolbox.

A new Policy Brief by the Arizona Chamber Foundation shows just how important a business-friendly regulatory environment is to promoting a healthy state economy, as well as how overregulation can be potentially devastating to a state's bottom line.

Written by the former Small Business Administration's Office of Advocacy Regional Advocate Michael Hull, the Foundation paper looks at how Arizona can improve its economic diversity by putting in place reforms to the rulemaking process that can help the state avoid the pitfalls experienced in California, where a steady migration of jobs out of that state has been occurring over the last 20 years.

According to Hull's findings, the costs of a bloated regulatory environment have been tremendously damaging to California's economy.

Citing a 2009 study by Varshney and Associates, Hull writes that the annual cost of California regulations – direct, indirect and induced – is over \$492 billion, which is almost five times

California's general fund budget and almost a third of the state's gross product.

But the pain of overregulation isn't just felt in the state budget. California regulations result in an employment loss of 3.8 million jobs. And the red tape especially hurts small business. The total cost of regulations in California in 2007 was over \$130,000 per small business.

Hull's paper finds that states like Arizona can avoid California's fate by instituting a rigorous cost-benefit analysis (CBA) before promulgating a new rule. California does not use CBA, and most of that state's agencies are enforcing state rules that are far more stringent and costlier than similar federal rules.

Hull discusses the benefits of designating a third party to conduct the CBA, which the Tobin legislation calls for. This would be positive for Arizona by shifting away from the current practice of having the affected state agency determine the impact of a rule, which has led to the practice of overestimating a rule's benefits while underestimating its costs.

The kind of reforms Rep. Tobin is promoting can, according to Hull, improve Arizona's potential for increased job growth. When regulations advance without a thorough CBA and result in new unfair and costly barriers, Hull writes, the risk of starting a business can become greater than any potential reward.

And Rep. Tobin proposes that state agencies should be prohibited from adopting rules that are more stringent than federal law without express statutory authority, a move Hull's paper finds beneficial.

"Every rule that Arizona has on the books that is more stringent than the federal government's puts Arizona at a competitive disadvantage versus other states," Hull writes.

This Great Recession has shown that Arizona has to be aggressive when it comes to diversifying its economy. A key part of that overall strategy can be implementing a regulatory review system that will be a model for other states to follow.

Glenn Hamer is president & CEO of the Arizona Chamber of Commerce & Industry.

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To help revive our battered economy, California lawmakers should immediately address two challenges that are blocking our path to a robust and revitalized manufacturing sector.

The first challenge is that, for decades, the Legislature has imposed many California-only burdens without understanding impacts on manufacturing jobs. Other states don't have restrictive meal-and-rest period rules and overtime laws, nor will they be joining a California cap-and-trade program to address climate change. Lawmakers should require fair and independent economic impact studies before adopting new California rules. Moreover, the Legislature should review regulations already on the books, and require periodic review going forward. This oversight will ensure that regulations on the books are working as intended and the Legislature can eliminate those that are ineffective, redundant or outdated. It's time to clean house.

The Legislature's second challenge is to change the "do not invest here" message caused by our California-only tax on our manufacturers. We should conform our tax policies to those of 47 other states and exempt the sales tax on manufacturing equipment purchases to ensure that manufacturers can compete. Studies show exponential economic activity and job growth as the result of the exemption. A Milken Institute study says the policy would result in 14,000 new manufacturing jobs and 50,000 overall jobs per year, over 10 years.

This is why states like Texas use the policy to reduce their tax burden and grow manufacturing. California is the only industrial state that levies a sales tax on the purchase of manufacturing equipment – a particular burden for new green businesses and established businesses looking to modernize their operations.

The Legislature has the power to take serious steps to reverse California's economic decline. The time to take those steps is now. We can't afford to wait.

Dorothy Rothrock is senior vice president of government relations for the California Manufacturers & Technology Association.

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