

# Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America's Urban Centers

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## Executive Summary

**T**he regulatory climate for very small, neighborhood-based businesses, or microenterprises, in large American cities can significantly influence urban economic dynamism. Case studies of Boston, Dallas, Atlanta, and Los Angeles help illuminate the complexity and detail of regulatory barriers to entrepreneurship and identify programs and other efforts to encourage neighborhood-based development.

Entry-level businesses that require relatively little education and skills are the most likely venues for revitalizing poor, urban neighborhoods through neighborhood-based entrepreneurship. These include occupations such as taxicabs, street vending, in-home catering and food preparation, nail care, and hairbraiding.

Our review of the regulatory environments in these cities and others focused on five basic observations about local regulation of start-up and entry-level businesses:

1. **Regulations rarely address performance and quality issues.** In almost no case did local ordinances address performance, quality, safety, or public health in a direct way. While ordinances were enacted with the stated purpose of protecting public health and welfare, the specific mandates and requirements had little relationship to performance. Requiring a certain number of hours of instruction in hair care, for example, does not guarantee the quality of the service provided. Moreover, inspectors could cite business owners for infractions of ordinances even though the infractions may have little impact on the quality of the service provided.

2. **Regulations tend to focus on compliance with rules rather than performance.** In most cases, whether regulation was at the state or local level, regulations focused on achieving set rules and benchmarks, not performance. Often, a business could easily provide a high quality product to a satisfied customer but be thwarted by the maze of local regulations. At the state level, this was clearly evident in laws regulating nail salons and hairbraiding where the state mandated detailed, largely irrelevant, criteria in order to qualify for a license. On the city level, rules regulating street vending and home-occupations were embedded in local zoning codes without reference to positive impacts from the business.
3. **Regulatory approaches are diverse.** Dallas, with the exception of taxicabs, appeared to have the least onerous regulatory environment, with little city-level occupational licensure. Most regulations were focused on planning and zoning permitting. The City of Atlanta, on the other hand, was involved in detailed regulation of dozens of occupations. Street vendors, while legal, face a labyrinth of micromanagement from the city, which allocates space on a first-come, first-serve basis.
4. **Regulations can significantly complicate business ownership.** New business owners often had to become experts in subtle legalities regulating their specific businesses.
5. **Regulations favor existing businesses.** The very nature of regulation favors existing businesses since, in almost all cases, licensing created an entitlement to legally operating the business. Once a taxicab company received a medallion or Certificate of Convenience and Necessity, the likelihood the license would be revoked was small. Meanwhile, licensing and other requirements created significant obstacles to new entrepreneurs less familiar with the regulatory system.

While local regulatory environments tended to be burdensome for start-up entrepreneurs, particularly those with less education and experience running businesses, numerous agencies and organizations have emerged to assist entrepreneurs. Nationally, more than 700 organizations assist microenterprises with loans, technical assistance, and training.

Among our case studies, Atlanta provided the most diverse array of assistance agencies among the cities analyzed. Most cities also had agencies and organizations that funded small businesses, but some, such as in Dallas, had programs that explicitly excluded the smallest and least experienced enterprises.

None of the cities analyzed through this research was involved in significant, citywide regulatory reform efforts. Most cities tended to focus on developing new funding programs rather than overhauling existing regulations and programs. All cities developed a form of a one-stop shop for permitting, but these also varied in scope and effectiveness. In Boston, the one-stop shop serves as a referral agency. In Atlanta, the One Stop Capital Shop permits new businesses to tap into a range of services, from permitting to financing.

The analysis of regulatory reform and survey of programs and strategies used to encourage entry-level entrepreneurship suggest several avenues for reform:

1. **Cities should focus regulatory policy on performance rather than rules.**
2. **Cities should work to reduce the complexity of the regulatory and business start-up process.** Many are moving in this direction through one-stop-shops for permitting and licensing. But cities should also consider eliminating entire sections of regulatory codes with little bearing on performance. Following the precedent of Indianapolis's regulatory review commission, cities should consider a systemic overhaul of local regulations. City councils could accomplish this by passing an ordinance that effectively repeals all regulations pertaining to occupational licensing and business

regulation by a certain date unless council, on advice from its regulatory review commission, reauthorizes the provision.

3. **Cities should avoid extending existing regulatory rules to new occupations and businesses.** The emergence of limousine and jitney services in Boston and elsewhere has increased choices and improved mobility for hundreds of residents and visitors. This growth would likely not have happened had the regulatory approach to taxis been extended to limousines.
4. **City and state governments should shift the burden of proof onto regulators to demonstrate the effectiveness and usefulness of rules and licensing requirements.** Cities increasingly adopt rules that virtually eliminate part-time drivers and niche companies in the taxi industry. Proponents of these rules should demonstrate that the proposals will, in fact, lead to a desired policy goal while fully accounting for costs and unintended side effects. Similarly, city governments should adopt the position that regulations should be transparent: the intended outcome should be directly tied to the regulation proposed.
5. **City and state governments should continue their efforts to streamline business permitting.** The increasing accessibility of the Worldwide Web and Internet can significantly reduce the time and labor costs involved with obtaining permits and fees. Businesses, in principle, could apply for permits on-line. City staff could be assigned as case workers to each application received in a queue. Case workers would be responsible for managing the application with the goal of permitting the business as quickly as possible. Similarly, licensing tests could be administered on-line, providing 24 hour, seven-days per week access by prospective applicants.

## Part 1

# Introduction

The recent controversy surrounding urban sprawl and Smart Growth has brought urban revitalization issues to the forefront of public-policy debate. Although critics of the current Smart Growth movement abound, a consensus has emerged that reinvigorating central-city economies is critical to the health of regional economic growth and the prosperity of residents in the 21<sup>st</sup> century.<sup>1</sup> However, discussions surrounding revitalization strategies focus almost exclusively on housing and new programs that encourage mostly middle-income people to stay in or relocate to the central city. For example, Maryland's much heralded Smart Growth plan includes the "Live Where You Work" program that offers tax incentives to households that buy homes near their employment in the central city. The Location Efficient Mortgage attempts to reduce borrowing costs for families buying homes in central-city neighborhoods near mass transit stops. Even urban-growth boundaries are designed to channel private investment into existing urban areas by foreclosing development opportunities in suburban and rural areas. These strategies, however, focus primarily on redistributing economic activity within a city or region.

Less attention has been given to the importance of creating an economic and political climate that encourages new wealth creation in central-city neighborhoods. This is surprising given a now long history of revitalization efforts in the United States. Issues of revitalization on the local level can be traced to the turn of the 19<sup>th</sup> century, when the Progressive movement made housing code reforms a critical issue in local politics. Similarly, in the 1920s and 1930s, zoning laws were adopted in many cities as a means to protect neighborhoods from encroaching industrial and commercial uses. Large-scale revitalization efforts supported by the federal government began in earnest in the 1940s with urban renewal and continue in the form of state-sponsored enterprise zones and federally sponsored empowerment zones, although their impacts on cities and neighborhoods are hotly debated.<sup>2</sup>

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<sup>1</sup> See, for example, Christopher Conte, "The Boys of Sprawl," *Governing* (May 2000), pp. 28-33; Ron Utt and Jane Shaw, eds., *A Guide to Smart Growth* (Washington, D.C.: Heritage Foundation and Political Economy Research Center, 2000); Randall G. Holcombe and Samuel R. Staley, eds., *Smarter Growth: Market-based Strategies for Land-use Planning in the 21<sup>st</sup> Century* (Westport, Connecticut: Greenwood Press, in press).

<sup>2</sup> Federally subsidized public-housing programs began with the Housing Act of 1937. Urban renewal was established through the Housing Act of 1949. Federal funds were used to clear "slums" for redevelopment. About 600,000 housing units (housing about 2 million people) were demolished, and about 250,000 housing units built, under urban renewal. Much of the land cleared under this program was redeveloped for commercial uses as well. For a more complete discussion of this program, see John M. Levy, *Contemporary Urban Planning*, 5<sup>th</sup> Ed. (Upper Saddle River, New Jersey: Prentice Hall, 2000), pp. 164-172. For a discussion of enterprise zones, see Margaret G. Wilder and Barry M. Rubin, "Rhetoric versus Reality: A Review of Studies on State Enterprise Zone Programs," *Journal of the American Planning Association*, vol. 62, no. 4 (1996), pp. 473-491; William T. Bogart, *The Economics of Cities and Suburbs* (Upper Saddle River, New Jersey: Prentice Hall, 1998), pp. 158-160; John Engberg and Robert Greenbaum, "State Enterprise Zones and Local Housing Markets," *Journal of Housing Research*, vol. 10, no. 2 (1999), pp. 163-187.

Many of the downtown revitalization efforts have focused on encouraging new investment in physical buildings, converting warehouses to lofts and other urban housing for middle- and upper-income families, and creating entertainment and professional enclaves. Meanwhile, neighborhoods have languished outside most downtown areas. Current inner-city residents tend to be poorer and less well educated than residents of the broader metropolitan area. Thus, even if Smart Growth policies successfully stimulate middle-income gentrification, or encourage investment by major corporations, many inner-city residents will still face dim employment prospects or may be forced out of housing because their incomes can not compete with higher-income households in a higher-cost housing market. Empowerment zone initiatives focus on expanding access to business financing, housing, and public-works projects that provide broad access to services by established businesses.<sup>3</sup>

Future earnings and employment prospects outside downtowns are even dimmer given current economic trends: manufacturing jobs continue to decentralize to suburban and rural areas of the nation as firms locate close to skilled and educated work forces.<sup>4</sup> Even if jobs did not decentralize, many current inner-city residents would still have trouble competing in an increasingly skill-based economy. Not surprisingly, many urban policy initiatives targeted toward poorer and less well-educated populations tend to focus on increasing the skills and education levels of current residents.

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## A. Entrepreneurship and the Competitive Advantage of Cities

An alternative strategy to revitalizing inner-city neighborhoods focuses urban policy on wealth creation at the grassroots level by stimulating entrepreneurship and new business formation in neighborhoods. Since Michael Porter's seminal work *The Competitive Advantage of Nations* demonstrated the potential viability of many inner-city neighborhoods in the early 1990s, many companies and policy analysts have taken a renewed interest in the economic potential of the central city, particularly its neighborhoods.<sup>5</sup> In fact, given the strength of national and local economies, many large corporations are using franchising to mine minority entrepreneurs as a way to tap into new markets, particularly among inner-city and ethnic communities.<sup>6</sup> More

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<sup>3</sup> For a comprehensive survey of the progress of empowerment zone initiatives in achieving their goals, see *Empowerment Zone Initiative: Investing in the Future*, Fourth Round Assessment of the EZ/EC Initiative (Albany, New York: The Nelson A. Rockefeller Institute of Government, State University of New York-Albany), <http://www.rockinst.org>.

<sup>4</sup> Arthur C. Nelson, William J. Drummond, and David S. Sawicki, "Exurban Industrialization: Implications for Economic Development Policy," *Economic Development Quarterly*, vol 9, no. 2 (May 1995), reprinted in John P. Blair and Laura Reese, eds., *Approaches to Economic Development: Readings from Economic Development Quarterly* (Thousand Oaks, California: Sage Publications, 1999), pp. 207-221.

<sup>5</sup> Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

<sup>6</sup> Lee Romney, "Franchisers Pin Hopes on Minority Entrepreneurs," *Los Angeles Times*, February 23, 2000.

recently, some programs have emerged to assist very small and new start-up ventures, also called “microenterprises.”<sup>7</sup>

Entrepreneurship rates, however, are not spread evenly among ethnic and minority groups. While about 11 percent of all Americans are self-employed, a common indicator of entrepreneurship, almost one-quarter of Koreans living in the United States are self-employed. Some groups, such as Asians, are traditionally overrepresented (statistically) among the self-employed and entrepreneurial. Immigrant groups generally tend to have higher rates of entrepreneurship and self-employment than Native Americans.<sup>8</sup> In St. Louis, an estimated 15,000 immigrant Bosnians are fueling the revival of one urban neighborhood.<sup>9</sup> On the other hand, other groups, particularly native African-Americans, are underrepresented.<sup>10</sup>

Many factors contribute to the likelihood that certain groups will be over- or under-represented among American entrepreneurs, including family background, income, and education. Policy factors, however, may also be important even if indirectly.<sup>11</sup> Governments on all levels can encourage or discourage entrepreneurship by dismantling or erecting obstacles to business formation.

Among “entry level” businesses that require little education and few specialized skills, these policy variables may be most clearly evident in the taxicab industry. Numerous cities, for example, explicitly limit entry into the industry by capping the number of taxicabs and taxicab companies that can operate or by erecting complicated, politically charged review procedures for new applicants. These policies effectively shut out new businesses unless potential entrepreneurs have the income, skills, time, and legal expertise to negotiate them effectively. The burden of these rules falls most heavily on those with the fewest resources, often low-income minority groups and recent immigrants. Existing businesses are protected under these laws because they have the resources to manipulate the system. Some ethnic groups, particularly native-born African-Americans, may be particularly burdened by these regulations because they lack the community network and political influence to promote more open and entrepreneur-friendly policies. Thus, one reason African-Americans may be underrepresented among small business owners and operators may be because they are heavily concentrated in the nation’s largest, more highly regulated cities. Other types of federal and state regulations may also impact entrepreneurship, including minimum-wage laws, occupational safety rules, and environmental permitting processes.

The likelihood of starting up and operating a small business is lower in cities where the regulatory process effectively requires entrepreneurs to become lawyers, accountants, planning consultants, and work-force trainers just to get legal approval to start a business. In addition, these entrepreneurs are expected to attend to the traditional tasks of producing, marketing, and selling their product or service.<sup>12</sup> “Merely registering and

<sup>7</sup> The Association of Enterprise Opportunity, a national microenterprise advocacy organization, defines a microenterprise as a business employing five or fewer individuals which is usually too small to tap into conventional bank financing and could benefit significantly from a loan of \$25,000. See their Web site at <http://www.microenterprise.org>.

<sup>8</sup> Michael Hout and Harvey S. Rosen, “Self-employment, Family Background, and Race,” *Working Paper 7344* (Cambridge, Massachusetts: National Bureau of Economic Research, September 1999).

<sup>9</sup> Joel Kotkin, “Bosnia’s Loss is an American City’s Gain,” *New York Times*, April 25, 1999.

<sup>10</sup> Roger Waldinger and Howard Aldrich, “Trends in Ethnic Business in the United States,” in *Ethnic Entrepreneurs: Immigrant Business in Industrial Societies*, ed. Roger Waldinger, Howard Aldrich, Robin Ward, and Associates (Newbury Park, CA: Sage Publications, 1990), Table 2.2, p. 54.

<sup>11</sup> For a review of these factors, see Hout and Rosen, “Self-employment, Family Background, and Race.”

<sup>12</sup> This observation is attributed to Steve Mariotti, President of the New York-based National Foundation for Teaching Entrepreneurship, in Michael E. Porter, “New Strategies for Inner-city Economic Development,” *Economic Development Quarterly*, vol. 11, no. 1 (February 1997).

legally operating a small business in an inner city is daunting,” notes Harvard business professor Michael E. Porter.<sup>13</sup> “It is truly ironic,” he continues, “that the areas in the United States that are most in need of business redevelopment are the most overregulated.”<sup>14</sup>

### Advantages to Home-based Businesses

The advantages of home-based entrepreneurship are many. For home-improvement contractors, the home serves as a convenient base of operations to calculate estimates for jobs and deploy workers and materials to job sites. Nail salons could even operate out of the home given their small space requirements and low volume of customer activity. Similarly, home-appliance repair, electronics repair, or auto stereo/CD installation services can all operate out of a garage, in a basement, or in an office/work space inside the home. Home-work offers benefits from low start-up costs and flexible work hours to direct savings on personal expenditures.<sup>1</sup>

Home-based businesses are often overlooked in discussions of business forecasting, economic activity, and entrepreneurship.<sup>2</sup> This is not surprising since persons who work from the home face a maze of legal uncertainty from federal, state, and local regulations. These regulations range from outright bans on home-based work, to specifying necessary architectural modifications that must be undertaken for home-based businesses, to the amount of space that can be used for work, the number of people who can work in the home, and limitations on advertising. Some categories of work are banned entirely by federal, state, or local statute. With the status of home-based companies in legal limbo, many people are reluctant to report home-based business activities.

Three factors make it likely that home-based businesses have become an even larger if still underreported segment of the nation's economy during the last decade. These include: (1) dramatic changes in communications and computing technology that have occurred making telecommuting viable; (2) the ongoing shift from a manufacturing toward a service economy; and (3) the emergence of a nontraditional workforce (i.e., more women entering the workplace, fewer two-parent, single-earner households, and older Americans staying economically active longer). It is also likely that work from home will continue to grow as a segment of the economy but that many home-based businesses will never be started or will fail due to unnecessary or outdated regulations, unbeknownst to economic analysts and unmourned by consumers. Consumers and the government (which forgoes the tax revenues) alike lose when regulatory barriers provide disincentives to home-based work.

<sup>1</sup> For instance: up to \$200.00 per month saved on food; more than \$100.00 saved monthly on gasoline, parking fees, and auto insurance; and more than \$100.00 per month saved on clothes. Joanne H. Pratt, “A Profile in Home-Based Workforce Available from May 1985 Current Population Survey,” unpublished working paper cited in Joanne H. Pratt, *Legal Barriers to Home-based Work*, Policy Report 129 (Dallas, Texas: National Center for Policy Analysis, 1987).

<sup>13</sup> Porter, “New Strategies for Inner-city Economic Development.”

<sup>14</sup> Ibid.

- <sup>2</sup> Surveys show that as many as 23 million people are using their homes as a place of work; among businesses that are run exclusively out of the home, more than 70 percent are run by women; and of the 8.2 million sole proprietorships in 1980, an estimated 63 percent were located in someone's home; and, in the 1980s, while the number of sole proprietorships had been increasing at a rate of 3.7 percent per year, those started by women were increasing at a rate of 6.9 percent per year. This discussion and the data come from Pratt, *Legal Barriers to Home-Based Work*. Though the data are certainly dated, her work is a useful survey of the limited research concerning home-based employment.

## B. Regulation and Entrepreneurship

Government regulations can have a debilitating impact on economic growth and entrepreneurship despite the most noble of intentions. By preventing entry, and raising entry costs (including extensive and onerous application procedures), local laws and regulations can have the unintended impact of greatly increasing costs that stifle business formation. These regulations have an especially pernicious effect on small businesses with slimmer profit margins and less capital and other resources (including time) to comply with rules and regulatory mandates. Rochester Institute of Technology economist Thomas Hopkins estimates that the annual cost of federal regulations alone exceeded \$700 billion in 1999, or more than \$7,000 per household.<sup>15</sup> More importantly, Hopkins estimates the average cost to businesses varies inversely with size:

- Businesses with 19 or fewer employees face an average regulatory burden of \$5,545 per employee;<sup>16</sup>
- Businesses with between 20 and 499 employees face an average annual regulatory burden of \$5,195 per employee;<sup>17</sup>
- Businesses with 500 or more employees face an average annual regulatory burden of \$2,921 per employee.<sup>18</sup>

In addition, many small businesses have an incentive to stay small. Some regulations do not apply to businesses under certain sizes, and any increased profits from modest growth could easily trigger greater regulatory burdens at all levels of government. The Manhattan Institute's Walter Olsen notes that current law encourages businesses to stay small:

*Occupational Safety and Health Administration regulations kick in at 10 employees, the Americans with Disabilities Act and the Civil Rights Act at 15, age bias and the health insurance continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 at 20, plant-closing-notification and family-leave mandates at 50, and Employee Retirement and Income Security Act and Equal Employment Opportunity Commission reporting at 100.*<sup>19</sup>

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<sup>15</sup> Thomas D. Hopkins, *Regulatory Costs in Profile*, Policy Study 132 (St. Louis, Missouri: Center for the Study of American Business, August 1996). According to Clyde Wayne Crews, citing U.S. Small Business Administration data, estimated regulatory costs at \$688 billion in 1996 were higher than personal income taxes (\$631 billion) or corporate profits (\$601 billion). Cited in Naomi Lopez, *Barriers to Entrepreneurship: How Government Undermines Economic Opportunity*, IPI Policy Report 149 (Dallas, Texas: Institute for Policy Innovation, July 1999), p. 7.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Walter Olsen, "A Product No One Would Buy," *Cato Policy Report*, vol. 19, no.3 (May/June 1997), quoted in Lopez, *Barriers to Entrepreneurship*, p. 8.

Indeed, informal and illegal economies for products and services often purchased in the legal economy thrive in many cities precisely because business owners want to avoid the high regulatory costs of the legal economy. In New York City, for example, the number of illegal sweatshops increased from just 200 in the 1970s to over 3,000 in the 1980s, employing more than 50,000 workers.<sup>20</sup> An estimated 90 percent of all inside renovation work by small construction companies in Manhattan was performed without permits.<sup>21</sup> Overall, the underground economy in the United States could approach a half-trillion dollars.<sup>22</sup>

The implications are important for urban development and revitalization. Job growth in cities is closely associated with the birth of new firms.<sup>23</sup> More importantly, most jobs are created by small firms that grow to become medium-sized firms.<sup>24</sup> To the extent the state and regulatory process inhibits the growth of firms by providing incentives for them to stay small and underground, the regulatory system could undermine long-term growth and redevelopment of inner-city neighborhoods.

During times of relatively strong economic growth, the costs of regulations to society are largely hidden.<sup>25</sup> Many would-be entrepreneurs find jobs with existing firms or work as independent contractors rather than negotiate the regulatory maze that includes incorporation, permitting, licensing, public hearings, and other steps. The number of potential entrepreneurs who decide against starting a new venture simply because of the regulatory hurdles is impossible to count. Business failures during economic good times are often attributed to poor planning or undercapitalization when, in fact, an important contributing cause is the cost of satisfying governmental mandates or complying with regulations.<sup>26</sup> The impact of the regulatory process on entrepreneurship in entry-level occupations is even more complicated by the fact that different levels of government regulate different occupations. Cities may be the primary regulator of home-improvement contractors, for example, but state agencies may take the lead in other areas such as barbering or cosmetology. Thus, the regulatory climate of a city may be adversely impacted by rules, procedures, and guidelines imposed at the state or regional level as well as the city level. To more clearly understand the role public policy plays in supporting or discouraging entrepreneurship for less skilled and less educated citizens in cities, the following sections examine more fully the policy climates for entry-level entrepreneurship in four cities: Atlanta, Boston, Dallas, and Los Angeles.<sup>27</sup>

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<sup>20</sup> Saskia Sassen-Koob, “New York City’s Informal Economy,” in Alejandro Portes, Manuel Castells, and Lauren A. Benton, eds., *The Informal Economy: Studies in Advanced and Less Developed Counties* (Baltimore, Maryland: Johns Hopkins University Press, 1989), pp. 60-77.

<sup>21</sup> Ibid.

<sup>22</sup> An attempt to more accurately estimate the size of the U.S. underground economy can be found in Edgar L. Feige, “Revised Estimates of the Underground Economy: Implications of U.S. Currency Held Abroad,” in *The Underground Economy: Global Evidence of Its Size and Impact*, Owen Lippert and Michael Walker, eds. (Vancouver, British Columbia: The Fraser Institute, 1997), pp. 151-208. See also the discussion in Sam Staley, *Drug Policy and the Decline of American Cities* (New Brunswick, New Jersey: Transaction Publishers, 1992), pp. 18-21.

<sup>23</sup> David L. Birch, *Job Creation in Cities* (Cambridge, Massachusetts: M.I.T. Program on Neighborhood and Regional Change, 1980).

<sup>24</sup> David L. Birch, *Job Creation in America* (New York: The Free Press, 1987).

<sup>25</sup> Thus, this study does not focus on broader issues of economic climate that might also be important. For a detailed discussion of the business climates in states and metropolitan areas, see Charles P. Zlatkovich and Karl B. Putnam, *Business Opportunity Index, 2000* (El Paso, Texas: Westerner Press, 2000).

<sup>26</sup> These effects may also be important because they are costs incurred “at the margin.” In other words, they are costs incurred on top of other normal business costs such as labor, machinery, office space, etc. Low skilled and less educated entrepreneurs are particularly disadvantaged because the marginal cost—the added resource and time costs needed to comply with the regulations—is often much higher than for entrepreneurs with substantial working capital and networks that provide access to attorneys and consultants that enable them to manage the process more efficiently.

<sup>27</sup> A myriad of federal regulatory agencies and rules impact the private sector, including minimum wage laws, collective bargaining and antitrust legislation, mandated benefits (e.g., the Family and Medical Leave Act and the Americans with

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Disabilities Act), health and safety standards, and environmental regulations. Paper work requirements alone may account for between one-third (for firms with 500 or more employees) to nearly half (for small companies with fewer than 20 workers) of the costs of business regulations since smaller businesses must redirect managerial resources to regulatory compliance because of their small staff. See Hopkins, *Regulatory Costs in Profile*.

Federal regulations affect businesses nationwide, however, and should not, in theory at least, competitively disadvantage entrepreneurship in one city compared to another. While federal regulations make it harder to start a new business per se, they do not make it harder to start one in Dallas compared to Osh Kosh or Seattle. Since this study focuses primarily on local regulations and programs, federal regulations are background considerations that affect entrepreneurship generally or simply as part of the cost of doing business. Thus, this study focuses only on state and local regulations and programs that make cities more or less favorable to entrepreneurial efforts.

This may not be true for certain environmental regulations such as the clean air rules adopted by the U.S. Environmental Protection Agency and struck down in federal courts. These rules could affect cities differently based upon their air quality. With a few exceptions, the cities that would be affected by these rules have seen the most dynamic growth during the last few years. Thus, burgeoning entrepreneurs in these cities may see their efforts stymied by EPA mandated or encouraged growth restrictions. Dallas is one of these cities.

## Part 2

# Entrepreneurship and Regulation: The Case of Taxis

One of the more difficult problems that policymakers and elected officials face is in understanding the myriad of ways local regulations impact small businesses. Few ordinances or state laws are subjected to comprehensive analysis, and almost none has been evaluated with respect to its impacts on self-employment opportunities in inner-city or minority neighborhoods. Although passed into law with good intentions, these regulations may have significant negative impacts on entrepreneurship in inner-city neighborhoods by erecting insurmountable barriers. While, as Section Seven discusses in more depth, many cities have responded by creating programs to target these businesses (e.g., microenterprise training or loan programs), regulations impact a broader range of businesses; their impact is felt beyond the relatively small number assisted through these other programs. Moreover, few programs assist in minimizing the regulatory burden new entrepreneurs face from complex, detailed, and often antiquated city ordinances. While some programs, such as one-stop-capital shops, help microentrepreneurs negotiate local ordinances, many programs are ill-equipped to negotiate complex state laws or local ordinances.

The urban taxicab industry provides a unique lens through which the regulatory climate of a city can impact economic opportunity. The taxicab industry is one of the most heavily regulated low-skilled businesses in the nation, a legacy, in part, of its early treatment by city governments as a public utility. Moreover, taxicab regulation is almost always regulated at the city level, not the state or regional level.<sup>28</sup> Thus, local regulation is almost always a product of local politics.

In principle, the skills needed to operate and run a taxicab business are minimal. Those with a thorough knowledge of their city, a good driving record, a safe car, and a little entrepreneurial “chutzpah” should be able to start up a taxicab company with ease and with surprisingly little initial capital (less than \$10,000 for a used car, radio/cell phone, and insurance). A single-car cab company would, at first glance, be the quintessential microenterprise. Moreover, a taxicab business would seem to be a prime example of a microenterprise with growth potential. By providing high-quality service and tapping into new markets, a taxi entrepreneur could expand from one to two to three or more cars relatively easily.

In practice, most cities regulate this industry to the point where entry is difficult, if not impossible. In some cases, entry is illegal: the local government sets a maximum number of licenses, and if the cap is binding, no one can legally start a new taxicab business. In Atlanta, the city has capped the number of taxicab licenses at 1,600 (see below). These artificial scarcities have created a dynamic illegal market in many cities as

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<sup>28</sup> An important exception is Denver where taxicabs are regulated by the state level public utilities commission.

unlicensed entrepreneurs try to meet unmet consumer demand. The City of Los Angeles, for example, grants franchises to taxicab companies with a minimum number of cabs. By some estimates, the number of gypsy cabs (illegal taxicabs) plying the streets of Los Angeles nears 4,000, almost double the number of taxicabs legally permitted.<sup>29</sup> Importantly, in many cities, the prevalence of gypsy cabs is a long-standing tradition, and many regulators let them operate because they do not compete with lawful transportation services.<sup>30</sup> Unfortunately, the nature of illegal businesses almost always limits their ability to expand.<sup>31</sup>

Taxicab regulation and deregulation are also politically controversial. An organized trade association of established taxicab owners, the International Taxicab and Livery Association (ITLA) based in Maryland, is poised to frustrate any attempt to lower barriers to entry and increase competition.<sup>32</sup> Even without the formidable lobbying power of the ITLA, local cab companies are ensconced in the local political system and actively and resourcefully oppose deregulation and new competition. State governments have rarely interfered with local government regulations of taxicabs or other businesses, even when the regulations explicitly undermine competition.<sup>33</sup> Thus, once in place, local politics make deregulation difficult to achieve.

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The taxicab industry is one of the most heavily regulated low-skilled businesses in the nation, a legacy, in part, of its early treatment by city governments as a public utility.

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The following section does not debate the merits of taxicab regulation and deregulation. That issue has been taken up in separate venues.<sup>34</sup> Rather, the discussion below focuses on the regulatory obstacles created to limit entry into a profession that would otherwise have relatively few natural obstacles if it were allowed to operate in a free market.

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<sup>29</sup> Dana Berliner, "Driving Off Economic Opportunity," *Los Angeles Times*, January 31, 2000. Estimates of the number of illegal cabs run from 1,500 to 4,000 while the city licenses about 2,500 cabs.

<sup>30</sup> See the discussion in Daniel B. Klein, Adrian T. Moore, and Binyam Raja, *Curb Rights: A Foundation for Free Enterprise in Urban Transit* (Washington, D.C.: Brookings Institution, 1997), pp. 47-50.

<sup>31</sup> The economic development benefits and limits of illegal businesses are discussed in detail, albeit in a different context, in Staley, *Drug Policy and the Decline of American Cities*.

<sup>32</sup> The authors are unaware of any instance where the ITLA has favored deregulating a local taxicab market to allow increased competition. On the other hand, the ITLA has commissioned and published numerous studies opposing deregulation. For a brief discussion of industry attitudes toward regulation, see Klein, Moore, and Reja, *Curb Rights*, pp. 50-53.

<sup>33</sup> The City of Madison (WI) convened an Ad Hoc Subcommittee on Taxicab Deregulation responsible for evaluating the impacts of the city's taxicab regulations on entrepreneurship opportunities in Madison in 1999. The final report, issued in August 2000, recommended the elimination of a relatively minor regulation and kept intact other rules that made single-car companies a practical impossibility. Peter Carstensen, a professor of law at the University of Wisconsin, testified that the local regulations may violate provisions of the state's antitrust laws because, among other things, the city used regulations more intrusive than necessary to accomplish legislative goals. For his complete statement, see Peter Carstensen, "Madison's Current and Proposed Taxi Regulation: Bad Public Policy and an Open Invitation to Litigation," statement before the Madison Transit and Parking Commission, September 12, 2000, <http://www.taxi-l.org/papers.htm#deregulation>. For a more general critique of Madison regulatory framework for taxicabs, see Samuel R. Staley, "Toward a 21<sup>st</sup> Century Taxicab Regulatory Framework: The Case of Madison," report submitted to the Ad Hoc Subcommittee on Taxicab Deregulation, June 5, 2000, available at <http://www.urbanfutures.org>.

<sup>34</sup> See the discussions in Adrian T. Moore and Tom Rose, *Regulatory Reform at the Local Level: Regulating for Competition, Opportunity, and Prosperity*, Policy Study No. 238 (Los Angeles: Reason Public Policy Institute, February 1998); *Taxicab Regulation in Ohio's Largest Cities* (Columbus, Ohio: The Buckeye Institute for Public Policy Solutions, October 1996); the litigation of the Washington, D.C.-based Institute for Justice at <http://www.ij.org>. For the perspective of the ITLA, see the industry-sponsored report *Taxicab Deregulation and Regulation*, Price Waterhouse.

## A. Barriers to Entry

Each city has unique ways of regulating its local cab companies. Traditionally, the more onerous regulations have included:

- **Twenty-four hour service requirements** where taxicab companies are required to provide round the clock, seven-days per week service;
- **Citywide service requirements** that effectively prohibit part-time and niche companies from providing services to specific markets or neighborhoods;
- **Public hearings** for all new applications to start a new business, where applicants bear the burden of proof to demonstrate that a market exists for their services, allowing anyone to object to the application, including the fledgling company's competitors;
- **Zoning ordinances** that prevent small businesses from operating out of their homes;
- **Caps** on the number of vehicles permitted to operate;
- **Minimum fleet sizes** requiring new cab companies to invest in substantial numbers of new cars (often 15 or more) before they can begin providing a service);
- **License fees**, which can range from as little as \$100 per company to \$1,500 or more; and
- **Off-street parking requirements** for out-of-service cabs that virtually eliminate the possibility of running a home-based business or microenterprise.

Cities show a striking level of creativity in establishing the regulatory environment for taxicabs. A survey of eight large cities in Ohio identified 18 major regulations.<sup>35</sup> Every city required some form of licensing for both drivers and companies. The licensing fees, however, varied significantly, from \$25 in Youngstown to \$250 per car in Dayton.<sup>36</sup> Akron charged \$250 to license a company, and then \$10 per car. Beyond general licensing requirements, individual cities varied significantly in the types and combinations of regulations (Table 1). Three quarters of the cities required metered fares and imposed a maximum price. Half of the cities required companies to file financial reports and regulated the color schemes of cab companies. Fewer than half required some of the more onerous and burdensome regulations, including 24-hour service requirements, public hearings on new licenses, and proof of public need and necessity.

In general, taxicab regulations fell into three categories: price, internal company operations, and industry structure. Price regulations are straightforward: local governments set maximum or minimum prices. Some local governments set the price of taxi services by ordinance. Others set a maximum price, but allow supply and demand to determine prices lower than the locally set maximum. Still others allow the market to determine the rate.<sup>37</sup> Most cities opt for some form of price regulation.

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<sup>35</sup> *Taxicab Regulation in Ohio's Largest Cities.*

<sup>36</sup> *Ibid.*, pp. 12-13.

<sup>37</sup> Of Ohio's eight largest cities, only two allowed markets to determine rates. Two others set rates by local ordinance, while the remaining cities enforced maximum-rate standards. Official prices were the same as the maximum rate in each of the cities examined.

**Table 1: Most Common Taxicab Regulations in Ohio's Largest Central Cities**

Regulation	Number of Cities (N=8)
Maximum price	6
Non-metered price prohibited	6
Cab stands regulated	5
Physician's certificate	4
Mandatory financial reports	4
Colors/insignia regulated	4
Cap on number of taxis	3
24-hour service required	3
2-way radio required	3
Public hearing on new licenses	3
Higher than legal age required	2
Prove public need and necessity	2
Separate dispatching office	2
Minimum price regulated	2
Advertising on car	2

Cities were active micromanagers of most facets of the industry. Regulation of business operations was far more varied, but still reflected the legacy of public-utility regulation. Some required companies to file financial reports with the city. In some cases, taxicab entrepreneurs must open their financial records to show that the business will be solvent, explain marketing strategies, and produce market analysis to support their application in public hearings that include their competitors. Almost all required the use of radios to dispatch cars even when alternatives were available, practical, and cheaper. Cities and their regulatory agencies commonly determine the minimum number of cabs a company must have to be licensed, what areas of the city the company can serve, hours of operation, prices, and service levels.

**Regulations as Barriers to Entry: The Case of Dayton, Ohio**

Local regulations often combine to form powerful barriers to entry. For example, in the City of Dayton (Ohio), merely complying with local regulations added almost \$67,000 to the start-up costs of owning a taxicab business. The most significant fiscal impact resulted from regulations that mandated separate dispatching services; almost three-quarters of the added costs could be attributed to the personnel needed to maintain a full-time dispatching service.<sup>38</sup> Purchasing enough cars to maintain service levels added another 22 percent to the cost of the business. Importantly, a 24-hour service requirement effectively mandated a multicar firm, driving up labor costs and the expense of acquiring cars. Additional costs were incurred as a result of the city's requirement that cab companies maintain separate dispatching services with radio equipment (when alternative low-cost technologies such as cell phones could substitute).

Other regulations also could dramatically increase costs. For example, if the city had imposed an effective cap on taxicab licenses, the supply of cabs would be less than the market demand for cab services. The price for licenses would increase as existing licenses would be sold to prospective taxi entrepreneurs. In cities where licenses are transferable (e.g., Columbus, Ohio), these market prices would be determined through legal sales in a private market. In other cases, where licenses are not transferable, these prices would be established in a

<sup>38</sup> *Taxicab Regulation in Ohio's Largest Cities*, pp. 22-25.

black market. The market prices for licenses could easily add \$5,000 or more per vehicle.<sup>39</sup> In New York City, taxicab licenses (also called medallions) cost more than \$175,000 on the black market.<sup>40</sup> In Boston, the city auctions off cab licenses in an open market, but restricts supply to keep prices high, often upwards of \$175,000. These prices are far beyond the financial wherewithal of even the most resourceful independent cabbie.<sup>41</sup>

Some cities are explicit about the exclusion of small business owners from the taxicab market. In Los Angeles, the city bids out taxicab services to companies with between 70 and 800 taxicabs, enfranchising between three and 30 cab companies. Thus, all taxicab services might be provided by a small number of firms in a city of more than three million people. The city of Los Angeles essentially manages the entire taxicab market through the regulatory process, leaving little, if anything, up to the spontaneous innovation of the private market. Of course, with city taxicab regulations running in excess of 50 pages, few start-up entrepreneurs would have the time or financial resources to wade through the regulatory maze to obtain a permit (see below).

In sum, cities regulate taxicabs in a variety of different ways, depending on the local political climate and the influence of local cab companies and other special interests. The following case studies further illustrate the impact of regulation in this industry.

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### **1. Boston**

In most cities, taxicab regulation is a municipal responsibility. In Massachusetts, the state Department of Telecommunications and Energy (DTE) regulates Boston's taxi market in a rare case of state involvement in this industry. The DTE imposes a cap on the total number of taxis on the streets of Boston.<sup>42</sup> The limit is

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<sup>39</sup> This is probably a lower bound. The market price for a taxicab license in Columbus, Ohio prior to the city council's decision to allow more cabs to enter the market was \$5,000. Other cities such as New York and Boston have experienced much higher black-market prices for licenses, and Atlanta sells its licenses for \$6,000 each.

<sup>40</sup> William H. Mellor, *Is New York City Killing Entrepreneurship?* (Washington, D.C.: Institute for Justice, n.d.), p. 5.

<sup>41</sup> In some cases, including New York City and Boston, banks make loans to taxicab drivers based on the estimated market value of the license, or medallion. This phenomenon has the unintended effect of creating another constituency for maintaining an uncompetitive taxicab market with limited entry. If more licenses were issued, the supply of cabs would increase and the market price of the license would fall, jeopardizing the asset value of the medallion.

<sup>42</sup> In an act applicable only to Boston, the Massachusetts legislature gave the Boston police commissioner authority to establish a limit on the number of taxi medallions issued by the state in 1930. See the amended statute in Massachusetts General Laws, Chapter 280, Section 4, of the Acts of 1934. If an applicant were denied a medallion because all the medallions had been issued, the applicant could appeal to the Department of Public Utilities (now the Department of Telecommunications and Energy) to increase the number of medallions. In 1988, an applicant who had been denied a medallion appealed the ruling. In 1991, after three years of legal action, the DTE issued an order that 300 additional medallions be issued immediately. This was the first time since 1934 that additional medallions had been authorized. As a result of additional legal maneuvering, the additional medallions were not issued until 1999, when they were sold at auction. The Hackney Division of the Boston Police Department oversees the sales of the medallions.

enforced by a ceiling on the number of taxi medallions established by the Boston police commissioner, which gives their owners the right to operate a taxi, or to lease that taxi to others to drive as employees.

A three-tiered process for licensing cabs and drivers exists in Boston. In the first step, the prospective cab company operator must obtain a medallion, which gives him the legal right to own and operate a taxicab company in the City of Boston. In the second step, the medallion holder must obtain a separate license to allow him to operate a taxi company and hire or contract with drivers. Thus, Boston separates the ownership of the medallion from the license to operate a company—the medallion is an entitlement to apply for a license to operate a taxi company. The Hackney Division of the Boston Police Department enforces the medallion rule. Not surprisingly, medallion owners are often not the same people that operate the company. Finally, in the third step, each of the potential drivers must obtain a license from the city before they can operate a taxi and collect fares. Most Boston cabbies are not owner/operators, but employees of (or contractors with) medallion owners. In the City of Boston, 1,775 medallions make Boston's the largest taxi system in Massachusetts.<sup>43</sup>

At first glance, with 3.1 taxis per 1,000 residents, Boston is better served than Dallas, at least as well served as Cambridge (2.52/1000), and better served than the adjoining town of Brookline (3.03/1000). Taxi service is generally viewed as adequate only in the city's downtown and at its airport. In the city's many outlying neighborhoods, however, residents complain about difficulty in obtaining taxi service.<sup>44</sup> These complaints may well be justified.

Boston is fundamentally different from all other jurisdictions in Massachusetts because Boston 1) contains large residential areas (e.g., Dorchester, Hyde Park, West Roxbury, Brighton, and many others); 2) is the economic center of New England's largest metropolitan area; and 3) contains large, regional transportation facilities (e.g., Logan Airport, South Station, Back Bay Station, and North Station). Downtown, the airport, and train stations generate demand for taxis that inevitably surpasses that of typical residential areas. Thus, Boston's special problem arises: the distribution of taxis is skewed away from residential neighborhoods to service the downtown and airport.

Even city officials acknowledge that getting a taxi in the city's outer boroughs (the non-downtown residential areas) is extremely difficult. The location of the city's cab stands—places where taxis await requests for service is indicative of this problem. Of 72 cab stands in the city—not including Logan Airport—45 (62 percent) are located in Boston proper (downtown) or other regionally significant areas.<sup>45</sup> West Roxbury has just one taxi stand, despite the fact that it would be as large as Brookline if it were an independent jurisdiction (Brookline has 26 taxi stands). Dorchester, which would be the second-largest city in the state were it not part of Boston, has only eight taxi stands. Brighton and Charleston have two each.

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<sup>43</sup> Other forms of chauffeured transportation are also highly regulated in Boston and Massachusetts. Jitney vans, for instance, cannot operate unless prospective owner/operators agree to operate only between specific, pre-determined points; they may not simply ply the streets in search of passengers (although they typically face fewer regulatory hurdles than taxicab companies).

<sup>44</sup> Hard data about customer satisfaction in Boston are not available, but anecdotal evidence abounds. Malene Mahabir, who works in Brookline (a city next to Boston), and lives in Dorchester, notes that the difference in getting a cab in the two cities is dramatic. "I live in Boston and the cabs take forever, if they even show." (Quoted in Judy Rakowsky, "Medallion auction seen improving city taxi service," *Boston Globe*, September 18, 1999, p. B3.) See also Dana Berliner, *Running Boston's Bureaucratic Marathon* (Washington, D.C.: Institute for Justice, n.d.), p. 4.

<sup>45</sup> For example, cab stands in the city's medical area are nominally in Roxbury but must be distinguished from cab stands in that neighborhood's residential areas.

Boston's Hackney Division estimates that, at any given time, as many as 70 percent of all taxis are serving either downtown Boston or the airport. That leaves only 30 percent of the city's 1,716 taxis—515 cabs—to serve all the outlying residential neighborhoods. Because non-downtown neighborhoods, taken together, comprise 86 percent of the city's total population of some 550,000, the actual cab density ratio, on average, for non-downtown Boston is closer to one taxi per thousand persons—approximately one-third of what Brookline and Cambridge provide their residents.<sup>46</sup> Even this may understate the problem because many areas of the North and South Ends are not close to the taxi stands, leading to the likelihood that residents in these neighborhoods, too, have to endure long waits after summoning cabs by phone. Moreover, many Boston cabs—such as those taking passengers home from Logan Airport—may actually be serving residents of other cities and towns, such as Brookline, Cambridge, or Newton. Thus, the real service ratios for these cities may be even higher relative to Boston.

The problem of underserved residential neighborhoods is unlikely to be resolved even by what might appear to be a bold stroke undertaken by the administration of Mayor Thomas Menino (see the discussion in Section 6). In response to complaints about taxi service and to demands from potential owner-operators for easier entry, the city authorized the sale of 260 additional medallions. Of those medallions authorized for sale, 151 were sold in two 1999 auctions. The high price of the medallions, however, ensures that new taxis, like the present ones, will have to seek out the most remunerative markets—downtown and the airport, leaving residential neighborhoods with no greater level of service. Plans to mandate that taxi service be provided to outlying areas are unlikely to lead to anything more than an enforcement problem for police. The economic incentive—in fact, the economic necessity created by the high medallion cost—will inevitably lead owners and drivers to where there is a greater density of potential fares, longer trips, and bigger tippers.

Thus, residents of outlying areas of Boston face a persistent problem: many simply cannot get medallion cabs to respond to requests for service in a timely fashion. Others resort to so-called gypsy cabs. In fact, Roxbury and Dorchester have benefited from gypsy cab service for more than 15 years, which are popular at local grocery stores and neighborhood shopping areas.<sup>47</sup>

## 2. Dallas

Dallas provides another example of how local governments regulate taxicabs. Despite its generally favorable business climate and booming local economy (see Section Four), prospective company owners must negotiate a maze of regulations if they want to operate legally.

To obtain a license, entrepreneurs must apply to the city council for a permit, have a minimum of 25 cabs ready to cruise the streets, and specify that they will own, control, or otherwise operate the proposed taxicab service. The latter requirement ensures, in principle, that licenses are not sold to independent operators (see the discussion below of taxicab licensing in Atlanta). The application must include a nonrefundable application fee of \$150. Once approved by city council, the owner must pay the city a franchise fee of \$240 a year per taxicab authorized by the permit (although the city allows franchisees to pay this fee in installments, see box).

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<sup>46</sup> Residential areas besides the downtown commercial area, North End, South End, Back Bay, and Beacon Hill.

<sup>47</sup> Berliner, *Running Boston's Bureaucratic Marathon*, p. 4.

The example of Dallas-based King Cab is useful. King Cab operates 36 cabs on the road. At \$240 per cab, licensing costs equal \$8,640 per year. Licensing costs would increase to \$12,000 if King Cab operated all 50 cabs that the city council has approved. More importantly, since the city requires companies to have a minimum of 25 cabs before it will grant the cab company a license to operate in the city, start-up companies are faced with a minimum of \$6,000 in licensing fees. Taxicab companies also have to obtain equipment essential for business, like radios, meters, and dispatch equipment.

The fees pale in comparison to the additional costs imposed by other city regulations. When asked what was the most costly regulation his company has to comply with, the response of Jim Richards, manager of the Yellow Cab Company, was vehicle standards. “This means basic car maintenance of each cab,” said Richards. “The city mandates that the cab should be no more than five years old. We keep cabs that are no more than three years old because they inspect them three times a year.”<sup>48</sup>

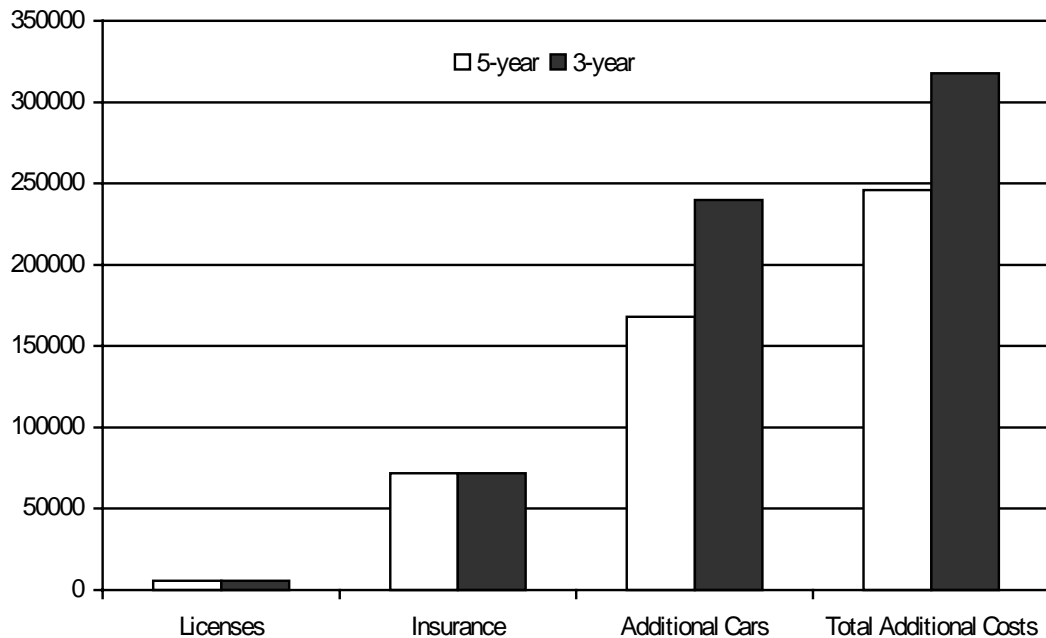
If the cab company uses a five-year old standard model car, the capital costs would increase start-up costs by more than \$168,000.<sup>49</sup> Insurance would add at least another \$3,000 per car, bringing the start-up cost for a new cab company in Dallas to more than \$245,000 (Figure 1). These costs are solely attributable to the regulatory mandate of the minimum-car requirement. Yet, these estimates are probably conservative. In Dallas, taxicab companies often maintain vehicle fleets with newer vehicles (see below). A three-year old Ford Taurus (model year 1998) would cost about \$9,500 in average condition and \$10,500 in clean condition.<sup>50</sup> Thus, the capital costs associated with the 25-car minimum with newer cars would add at least \$70,000 to the start-up costs of the company, bringing the total cost of starting a new taxicab company in Dallas to more than \$330,000. These costs are almost solely attributed to regulation.

**Figure 1: Selected Costs to Comply with 25-car Minimum Requirement for Dallas Taxicab Companies**

<sup>48</sup> Interview with Jim Richards, Manager, Yellow Cab Company of Dallas by Sterling Burnett, Senior Policy Analyst, National Center for Policy Analysis.

<sup>49</sup> A standard model used in the taxicab industry is a Crown Victoria, four-door sedan. The average price of a 1996 Crown Victoria was \$8,275 as of May 1, 2000, according to the Ohio Edition of the *Official Used Car Market Guide* published by Black Book National Auto Research in Gainesville, Georgia. A sedan in clean condition would sell for \$9,600. A 1996 Ford Taurus (four door sedan) would average about \$6,175 and \$7,275 for a cleaner than average car. Total cost is based on adding 24 cars to meet the 25-car minimum required by ordinance.

<sup>50</sup> *Ibid.*



Source: Calculations based on adding 24 cars to meet the minimum fleet size requirements, interviews with Dallas taxicab company operators, and *Official Used Car Market Guide* (Gainesville, Georgia: Black Book National Auto Research, May 1, 2000). See footnotes in text.

#### Taxicab License Requirements in Dallas

- Letter of application;
- Documents related to the form of business, such as Articles of Incorporation;
- Name, address, and notarized signature of applicant;
- Income statement (tax return; balance sheet list of assets and liabilities);
- Description of past business experience, particularly transportation related;
- Description and picture (or drawing) of proposed insignia and color scheme;
- Description and copy of company's proposed driver dress code;
- Copy of proposed driver's contract;
- Evidence of Insurance (letter or certificate), no more than \$1,000 deductible and must cover all vehicles owned and non-owned operating under holder's authority;
- Statement of public convenience and necessity;
- Number of vehicles, 25 minimum (if transfer, list all vehicle identification numbers and all drivers);
- Personal and property liability insurance worth at least \$500,000 per accident per vehicle by insurance carrier must be approved by the city;
- Description of radio equipment;
- Proposed City of Dallas operation location, and copy of Certificate of Occupancy;
- Evidence of payment of ad valorem taxes; and

- Any other information applicant feels is relevant to obtain an annual permit.

City council and license fees are only one part of the overall process. The director of the transportation department in the Dallas Office of Economic Development must also conduct an investigation and make “findings of fact” concerning “public convenience and necessity” and other factors, including:

- The number of taxicabs presently operating in the city and the impact of new companies on wages and working conditions of existing taxi drivers, taxicab companies, and public mass transportation;
- The adequacy of existing public transportation services, including existing holders, to meet the city’s transportation needs;
- Whether existing companies can render the proposed additional taxicab service more efficiently or effectively than the applicant;
- The effect of the proposed additional taxicab service on traffic conditions; and
- The character, experience, and fiscal responsibilities of the applicant.

Once the transportation director completes his investigation and reports his findings of fact, the city council is required to hold a public hearing to consider whether a franchise or annual permit should be granted. The applicant for a franchise or annual permit has the burden of proving that the public convenience and necessity require the proposed taxicab service and that the applicant is qualified and financially able to provide the service proposed in the application. Thus, the regulatory process establishes a presumption against entrepreneurship and spontaneous innovation. The concept of consumer accountability is virtually absent from the regulatory framework. Not surprisingly, in practice, public convenience and necessity requirements have served to protect existing cab companies from competition.

Dallas taxicab companies face rate limitations that are also approved by the city council. In 1999, the initial pickup and first-mile costs were \$1.50. The fare increases by 30 cents for each additional one-quarter mile and one and one-half minute traffic delay (or waiting time). There is also a \$1.00 charge for each extra passenger. For airport service, an ordinance establishes minimum “flag drop” (i.e., pickup) charge at each airport (and a minimum charge of \$5.00 for all trips originating at Love Field). Companies can propose rate changes by filing the proposal with the city secretary and the director for consideration by the city council.

Taxicab franchisees also face regulations concerning driver qualifications and equipment.<sup>51</sup> According to Yellow Cab owner Jim Richards, all taxicab drivers are independent contractors, a common practice in the taxi industry. Thus, they do not receive company-sponsored benefits such as health or life insurance. Chapter 45 of the Dallas City code requires approval of company/driver contracts by the director of transportation and requires the taxi company to indemnify the city and hold the city harmless for any claim or cause of action against the city arising from conduct of the driver.

Ironically, Dallas cab franchises usually operate below legal capacity: each company’s cab fleet is less than the number of cabs approved by city council. In such a restricted market, cab companies would be expected to put as many of their cabs on the streets as possible. Instead, local taxicab companies have chosen to further limit taxicab availability and access. The Dallas city council has approved permits for 17 licensed cab

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<sup>51</sup> Taxicab drivers, for example, must undergo a criminal background check paid for by the company, be proficient in English, and take a commercial driver course, which costs \$25 dollars.

companies authorizing a citywide taxicab fleet of 2,793 cabs (about 2.65 cabs per 1,000 population). Only 1,951 cabs, 69.8 percent of the total, are on the road, or about 1.85 cabs per 1,000 population. King Cab, one of the city's smallest, has 50 authorized cars approved, but only 36 (72 percent) are on the road. Yellow Cab, the city's largest, has 394 of its 545 approved cabs (78.8 percent) on the street.

The regulatory climate in Dallas, like Boston, leaves little up to the spontaneous activity of the local transportation market. This regulatory climate is strikingly inconsistent with the city's reported free-market reputation.

### **3. Atlanta**

Although Boston and Dallas heavily regulate entry into their local markets, Atlanta may be one of the most highly regulated taxicab markets in the nation. Like Boston, Atlanta requires prospective taxicab owners to go through a multistep licensing process. First, the entrepreneurs must obtain a Certificate of Public Necessity and Convenience, or CPNC.<sup>52</sup> The CPNC operates like a medallion: the certificate gives the owners the legal right to operate a taxicab on the streets of Atlanta. The ordinance also caps the number of CPNCs at 1,600 and sets a minimum price of \$6,000 per certificate (Section 162-61).<sup>53</sup> Certificate owners can renew their CPNC by paying the city \$100 per certificate each year.

The CPNC and the rules regulating their use are formidable barriers to opening a taxicab company in Atlanta even without the city-imposed cap. The price of the certificate is a minimum price, and the City of Atlanta sells the certificates based on the market price at the time of sale. Fortunately, certificates can be bought and sold by their owners, but the city can revoke or suspend the certificates for several reasons. The city also requires that all owners of certificates operate a taxi (or other vehicle for hire) at least six months out of the year.<sup>54</sup> If the certificate is revoked or suspended, an application for a new CPNC will not be considered by the city for at least three years.<sup>55</sup>

The second step of the process requires entrepreneurs to obtain a license to operate a taxicab company (\$100).<sup>56</sup> This license is in addition to the general business license required by the city (see Section Six). As in Dallas, company permits will not be granted unless the company owns or leases at least 25 taxicabs and operates seven days a week, 24 hours per day.<sup>57</sup> The city also requires the company to be fully staffed with employees, including a dispatcher, and submit to the city a copy of the lease (or affidavit of ownership) for the property that will house the company. Moreover, the property must be large enough to accommodate the office plus off-street parking for each of the vehicles when not in use. This requirement virtually eliminates any possibility of running a business from a home or starting a taxicab business on a small scale.

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<sup>52</sup> Chapter 162, Article II, Division 1, Section 162-56.

<sup>53</sup> Bureau of Taxicabs and Vehicles for Hire, interview with Laura Creasy, research director for the Georgia Public Policy Foundation, June 2, 2000. According to the bureau, the city has never authorized the legal limit of CPNCs. Thirty CPNCs have been revoked. Thus, at most, 1,582 taxis have operated legally on the streets of Atlanta.

<sup>54</sup> Section 162-63(b)(5).

<sup>55</sup> Section 162-63(e).

<sup>56</sup> Part II, Chapter 162, Article II, Division 4.

<sup>57</sup> Section 162-97(b).

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Local taxicab regulations virtually eliminate the possibility of experienced taxicab drivers or neighborhood entrepreneurs without significant financial backing from starting a new company to service niche or new markets.

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The initial capital costs of starting a taxicab business in Atlanta are dramatically higher than in either Dallas or Boston. The 25-car minimum alone requires start-up capital of at least \$150,000 to obtain the CPNCs to run a company.<sup>58</sup> If the company chose to own its cars and purchased cars six-years old in its first year, it would incur additional costs of \$150,000.<sup>59</sup> The costs of land would easily add tens of thousands of dollars to this figure given the space requirements for off-street parking. The investment needed to start a cab company in Atlanta could easily approach a half million dollars or more by purchasing newer cars, outfitting them with radio dispatching equipment, leasing office space, and hiring employees to run a full-service cab company.

In sum, local taxicab regulations virtually eliminate the possibility of experienced taxicab drivers or neighborhood entrepreneurs without significant financial backing from starting a new company to service niche or new markets.

#### **Other Regulations Add to Burdens of Starting a New Cab Company in Atlanta**

The financial costs are only one component of the regulatory burden for taxicab entrepreneurs in Atlanta. Other regulations include:

- Minimum weight for the taxicabs (2,000 pounds, Sec. 162-39);
- Dome lights on the roof (Sec. 162-36(e));
- Six-year minimum age for cabs (Sec. 162-39(d));
- Three-door minimum for cabs (Sec. 162-39(c));
- Driver training in the Atlanta ambassador education program (Sec. 162-140);
- Approvals of indoor advertising by the Bureau of Taxicabs and Vehicles for Hire (Sec. 162-36(f)); and
- Fees for transfers of drivers to other companies (\$15.00 per transfer), transfers of CPNCs (\$100 per transfer), and semiannual vehicle inspections (\$25.00 per inspection).

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<sup>58</sup> Each CPNC costs \$6,000, and the off-street parking requirements for a 25-car fleet would be considerable, if not prohibitive, for a microenterprise. In principle, however, an individual driver could purchase a certificate and then contract with a company to provide dispatching services.

<sup>59</sup> Average purchase price for these calculations is \$6,000. The average price of a 1995 Crown Victoria was \$6,275, according to the *Official Used Car Market Guide*. A sedan in clean condition would sell for \$7,750. A 1995 Ford Taurus (four-door sedan) would average about \$4,575 and \$5,600 for a cleaner than average car.

## B. Lessons From Taxicab Regulation

One reason taxicab regulation is so diverse is that cities have attempted to tailor their rules and regulations to local political conditions. A second reason is that the regulations suffer from inertia and “capture.” Regulations serve the interests of existing cab companies, and they have powerful incentives to lobby local government officials to maintain the current system. Oligopolistic markets—markets dominated by a few firms with high barriers to entry—are common in most cities. Denver’s market, for example, was dominated by three cab companies for 45 years before the state legislature allowed a competitor to enter the market. In Madison, Wisconsin, a new cab company has not entered the market since the late 1970s. In fact, as the debate over deregulation began to heat up in Madison, the city raised its cab company license fee from \$500 to \$1,500, dramatically increasing the financial burden for start-up entrepreneurs with little capital.<sup>60</sup>

Similarly, few taxicab drivers complain, because they know that agitating for deregulation may well cost them their jobs. Rules are sufficiently detailed that cab-company owners can find enough infractions of policy (e.g., sloppy record keeping) as excuses to fire drivers. Moreover, in cities with more detailed rules and paperwork burdens, the potential traps are even greater. For example, some cities limit the number of hours that cab drivers can work. Thus, in addition to keeping logs of customer pickups, fares, and dropoffs, drivers must also keep records of hours worked. Often, complying with these regulations serves little purpose other than meeting the regulatory hurdles established in local ordinances.

The experiences of these cities allow for several general observations about the impact of regulations on entry into local markets:

1. **Regulations rarely address performance and quality issues.** Taxicab regulations illustrate that many regulations address quality issues only indirectly. Rather than focus specifically on quality and performance issues, local regulations focus on compliance with the ordinance. For example, 24-hour service requirements imply that this mandate will ensure access to taxicab service around the clock. Yet, many residents in cities with these requirements continue to complain about long wait times or lack of service in poor and minority neighborhoods.
2. **Regulation tends to focus on compliance with rules.** This tends to reinforce the micromanagement of industry by local officials. As regulations are enacted, staff is needed to ensure compliance. Not surprisingly, the more complex the regulatory system, the more active local regulators and review commissions are in the day-to-day operations of the business. Thus, limitations on driver hours require detailed records by companies tracking the work hours of drivers. Local officials then need to tabulate time sheets and records to ensure compliance. Similarly, more extensive regulation invites further intrusion of local officials into the normal business of the firm. Prescriptions for using certain technologies (e.g., radio dispatching) require local officials to closely monitor cabs and cab company owners to ensure they do not use cell phones to generate trips and fares.

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<sup>60</sup> Samuel R. Staley, “Toward A 21<sup>st</sup> Century Taxicab Regulatory Framework: The Case of Madison,” unpublished report circulated to the Ad Hoc Committee on Taxicab Deregulation, June 5, 2000, available at <http://www.urbanfutures.org>.

3. **Regulatory approaches are diverse.** Cities and states have dabbled in numerous types and forms of regulation. Some have imposed caps, others have regulated hours of operations, and still others simply have required radio dispatching. Moreover, specific regulations have different impacts depending on the local economic environment. A shortage of taxicab licenses in Boston is artificially boosting prices to \$150,000 or more per medallion. On the other hand, while the City of Cleveland had a cap on licenses, the number of licensed cabs was below the minimum (in part due to other onerous regulations making entry difficult for small operators). This diversity does not imply that rules are less burdensome in restricting entry. On the contrary, the diversity simply implies that the impact is felt to different degrees and in different ways, depending on the market.
4. **Regulation can significantly complicate business ownership.** In a regulated environment, particularly one as regulated as the taxicab industry, business owners are engaged in much more than producing a product or a service for consumers. Business owners also devote significant hours of time and other financial resources (e.g., attorneys, consultants) to comply with regulations on top of the logistical problems involved with operating a service business.
5. **Regulation favors existing businesses.** The more complicated regulations are, the greater the comparative advantage existing businesses have. By operating an established business, business owners have proven their ability to negotiate the maze of red tape necessary to keep their businesses operating. New businesses need to spend hours learning the ropes, often to the detriment of providing quality services to their customers.

The taxicab industry may be an extreme case: most industries are not as heavily regulated. Nonetheless, the case provides important lessons and a useful lens through which regulations over other businesses and industries can be evaluated. The following sections explore these issues and questions in more detail by focusing on the regulatory framework imposed on other businesses in four cities: Boston, Dallas, Atlanta, and Los Angeles.

## Part 3

# Beantown Rap: Boston

**B**oston, at least superficially, evinces great enthusiasm for the concept of entry-level entrepreneurship. “I am committed to providing the economic opportunities that can help our citizenry improve its quality of life,” Boston Mayor Thomas Menino wrote in *Doing Business in Boston*.<sup>61</sup> The city’s

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<sup>61</sup> *Doing Business in Boston: A Guide for Starting Your Business*, City of Boston, Office of Business Development, June 1999.

approach to providing such support, however, has been confined largely to efforts to guide prospective entrepreneurs through licensing and occupation requirements while leaving in place the arguably daunting, and in many cases unnecessary, maze of regulations.

As the case of taxicabs demonstrated, Boston can regulate entry-level occupations as tightly as any U.S. city. Taxi medallions, for instance, are limited in number and, as a result, now sell for more than \$180,000.<sup>62</sup> The right to sell food or goods on the street is limited to a few locations and can cost up to \$500 a month.<sup>63</sup> Zoning laws preclude most home businesses. Overlaid on all of this is a web of state-level restrictions from the Commonwealth of Massachusetts, licensing everything from cosmetologists to in-home day-care operators.

And yet Boston is by no means a city without an active and vital commercial life on the streets of its downtown and outlying residential neighborhoods. On weekend evenings, immigrants throng around the informal pushcarts and stalls of the Haymarket meat and produce district. Farmers' markets, providing a venue for the sale of local foods and crafts, have become a prominent new activity both in the heart of the city's downtown and in 12 residential neighborhoods. The local transit authority is now encouraging street entertainment in Boston's subway stations.

Although a major deregulatory effort at the state level fell flat in 1995, remnants of 18<sup>th</sup> and 19<sup>th</sup> century street life, ensconced as Boston tradition, have persisted, finding new niches in the modern era.<sup>64</sup> Entrepreneurs have found loopholes in laws that have allowed them to flourish despite official resistance. These loopholes have set important precedents that have helped move urban policy in Boston in a new, entrepreneur-friendly direction.

Nevertheless, license and permit laws pose significant barriers to entrepreneurship, including in-home family child-care, on-street sales of merchandise and food, cosmetology, in-home food preparation, and other in-home based businesses.

## A. Regulation in Boston and Massachusetts

More than 80 occupations, professions, and trades, ranging from physicians to ticket agents, from concrete technicians to pet shop owners, are subject to licensing, regulation, or both in Boston and Massachusetts.<sup>65</sup> Here entry-level occupations such as in-home family day care, on-street sale of merchandise and food, home-based catering, and cosmetology are considered.

### 1. *In-home Family and Child Care*

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<sup>62</sup> City of Boston Taxi Medallion Auction, June 2000; auction results reported to Pioneer Institute by Captain Albert Sweeney, Hackney Carriage Unit, Boston Police Department.

<sup>63</sup> Fees for obtaining a pushcart permit are levied by both the state and city, whose agencies restrict the number of the pushcart locations across the city. Pushcart vendors often join groups that amount to subcontractors for the city (see Part Seven, "On Street Businesses"); the rental fees, then, are charged by these subcontracting organizations.

<sup>64</sup> House Bill 5348, "An Act to Eliminate Unnecessary Government Regulation of Professionals," 1995. See Peter J. Howe, "Professionals Warn of Licensing Bill," *Boston Globe*, August 10, 1995, p. 31.

<sup>65</sup> *Citizens' Guide to State Services: A Selective Listing of Governmental Agencies and Programs*, Section K, published by the Secretary of the Commonwealth, 1995, p. 121.

Two types of childcare outside the home exist in Boston. Childcare or day-care centers often attract the most notice, in part because they may be large, run by relatively well known national firms, or found in a workplace. But the far more common type of childcare is that provided in private homes, either by relatives or—more to the point of this report—by neighbors providing what is known as “family day care.” As with the inadequate taxi service in Boston residential areas, daycare, too, is in short supply. A 1996 survey by the Cambridge-based Child Care Resource Center found that day care vacancy rates were low (3 percent of total available slots) and places were thus difficult to locate, forcing parents to accept settings they might not prefer. Efforts to draw entry-level, lower-income women, in particular, into the family day-care field, have encountered the high wall of regulation. Opening a family childcare center is “a tough, tough business,” Boston’s director of jobs and community service has observed.<sup>66</sup>

To become a licensed family day-care provider in Massachusetts, one must apply through the “caring for children process.” Navigating this process is not easy, especially for those who may have limited formal education and live in modest homes. Applying is a two-step process. First, one must apply to obtain an application form. Obtaining the application for the full application form requires that one knows to contact the Massachusetts Office for Children. No municipal agency (such as a local Health Department) is empowered to offer such a license. The license application and approval process is highly centralized. A potential day-care provider who even knew that licensing was necessary, and who consequently called a local city or town hall, would likely have to make a long series of phone calls—general city hall number, referral to a local agency, referral to the general Office for Children number, and referral to the regional office—before even being sent the application for a license application.

Although the only requirement for formal training from the state is a three-hour orientation for prospective providers, the Office for Children arguably makes it difficult for prospective licensees. The full license application form, though clearly designed with the interests of young children paramount, is daunting to the point that it may work against its own intended goals by encouraging providers to operate without formal certification.

Consider the application’s length. The explanation of requirements runs nine pages; the application form itself is 10 pages with seven sections.<sup>67</sup> Neither contains a phone number of someone to contact with questions. What accounts for this length and detail? The answer involves what is clearly well-intentioned standard-setting, standards that assume parents cannot assess the quality of childcare providers on their own and that providers have no incentive, lacking minute standard-setting by the state, to provide high-quality care on their own.

Consider also some of the license requirements. Providers must specify, in writing, how the children’s days are to be structured. “Describe in detail how you would spend your day with daycare children. Include activities for all age groups, meals, snacks (a nutrition plan is required), diapering, toileting, outdoor play and naps.” Providers must even specify how long “time-outs” for disobedient children will be (one minute for each year of age of the child), as well as providing a minimum number of flashlights per floor. Limits on other household members who can help with childcare seem overly strict: not only must “household member assistants” be at least 17 years old, but they can be used no more than 25 hours per week, a limit that would seem to work against family day care operating as a family business. Moreover, some requirements seem

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<sup>66</sup> Michael Grunwald, “Day-care Program Falls Short of Goals; Few Welfare Mothers Starting Own Firms,” *Boston Globe*, Metro/Region, February 26, 1996, p. 1.

<sup>67</sup> The seven sections are: information about you (the applicant); household numbers; license status and capacity; employment history and references; provider qualifications; schedule of activities; and behavior management.

difficult for urban residents in particular, who compose a large percentage of public-assistance recipients, to meet. "Outside playspace," for instance, must constitute 75 square feet per child. Those without sizeable yards could struggle to meet such a requirement.

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At the same time, the Office of Child Care Services has continued to receive reports of significant numbers of non-licensed, in-home childcare facilities. This experience raises the question of whether the current complexity of the licensing process discourages those on the front lines of childcare in lower-income communities from applying. State officials acknowledge that they regularly become aware of non-licensed childcare providers, usually as a result of complaints. Complaint numbers are notable: unlicensed programs brought to the attention of the state's Office of Child Care Services totaled 349 in 1996 and 319 in 1997.<sup>68</sup>

Operating informally may be convenient but, pushed outside the mainstream by onerous licensing requirements, childcare providers cannot declare their income should they seek financing for improvements, nor can they declare it to banks should they seek a mortgage for home purchase or renovations. Moreover, because they are operating in the informal economy, they do not pay taxes on what they earn.

## ***2. Street Vendors***

Despite limitations on the number of street vendors permitted in Boston, the city, by comparison to many others in the United States, is notable for the number of on-street merchants who do market their goods. They cluster around the Park Street subway station and Boston Common and around the Downtown Crossing commercial area. They appear on First Night—the city's New Year's Eve celebration—and can be found outside Fenway Park, and somehow show up at busy intersections selling roses on Valentine's Day and lilies for Easter Sunday.

Through regulation and a complex two-level permitting process in Massachusetts, however, the state may have discouraged many others who might like to get a start or earn extra income through an on-street business. Vendors cluster only in the most lucrative areas. These areas are also the most difficult for which to get a permit. Moreover, there are questions to be asked about the operation of the most prominent vendor areas, as to whether they have been fairly apportioned or run so as to encourage the maximum number of vendors. While on-street businesses will never offer a large number of jobs, they nonetheless help establish an

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<sup>68</sup> Complaint data reported to Pioneer Institute by Douglas Pizzi, Department of Transitional Assistance, Commonwealth of Massachusetts. Inherent in this situation is the question of whether regulators are, in effect, allowing the best to be the enemy of the good. By insisting on detailed, high standards, they may discourage low-income child-care providers from becoming involved in the formal licensing process at all. High safety standards do no good if enforcement complexity works to leave providers out of the formal system altogether. Ironically, state officials do not, generally, seek to shut down non-licensed providers of whom they become aware but, rather, seek to help them through the licensing process, even as operations are allowed to continue. Arguably, the best—and certainly most convenient—strategy for a child-care provider is to operate without a license and wait for authorities to offer help.

atmosphere of entrepreneurship in a city and offer a way up for those starting out. The need for public safety and order must be balanced with the goal of job creation.

As matters stand, becoming a legal “vendor, transient vendor or hawker” in Massachusetts is a fairly complex task—one that would require a person starting out in such a business to deal first with state government, then local government. To become a “hawker” or “peddler,” one must begin at the state level by obtaining a license, good for one year, from the state’s Office of Consumer Affairs. One must post a \$500 bond and pay a license fee that ranges from \$55 to \$62. There is also an insurance requirement (\$200 to \$300 a year), as well.

Having obtained a license at the state level—which authorizes an individual to enter the business—one must obtain a permit for the activity itself, this time at the local level from the Licensing Division of the Boston Department of Public Works. If one wants to prepare and sell food, an array of additional local authorities, housed in separate parts of municipal government, must approve. A local health inspector (in Boston, the Inspectional Services Department) must grant a health permit. A written “food managers” course is required. A license for the facility as well as the individual must be granted by health authorities. If cooking is involved, the fire prevention division of the local fire department must grant a propane permit. All in all, selling food can add \$400 or more to the financial cost of vending on Boston’s streets.<sup>69</sup>

### ***3. Home-based Catering and Sale of Homemade Food***

One way that an on-street vendor might wish to base his business might be through the sale of foods prepared at home for sale on the street. In fact, the sale of baked goods and other homemade foods is among the most time-honored ways to supplement income. It can be the means to spawn successful restaurants or catering firms. Nonprofit organizations of almost any imaginable stripe—whether churches raising money for a special charitable project or students raising money for a class trip—have long relied on the sale of homemade food. It is an area ripe for the entry-level entrepreneur, as well, for the obvious reason that almost everyone has a kitchen and could prepare, at home, foods for sale, whether to neighbors or local businesses. In-home catering could be as small an enterprise as baking cookies but could become as large as private, in-home dinners delivered to customers.

In Massachusetts, however, there is a problem with this scenario. Article X of the Massachusetts Public Health Code explicitly and completely prohibits the in home preparation of food for sale, except under conditions that make it impractical. Specifically, one must demonstrate to local authorities that an entirely separate, second kitchen, including sink and stove, has been set up for commercial preparation of food in the home. These regulations have little direct connection to legitimate health and safety issues with respect to food preparation. Commercial-grade kitchens can be as unhealthy and unsafe as residential kitchens, yet this regulation adds significant costs for start-up entrepreneurs. One’s existing kitchen simply may not be used for commercial purposes regardless of how safe or clean the food preparation is. Not even a few pies could be baked, legally, and supplied to a local restaurant.

At the same time, despite such regulation, the last 10 years have seen a resurgence of baked goods for public sale in the farmers’ market venues described above. Markets publicize their sale of “muffins, cookies, jams, breads and turkey products.” Yet there is an emerging double standard evidenced by these efforts. Inner-city entrepreneurs who might wish to operate a catering or baking business from their homes face the insuperable

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<sup>69</sup> Berliner, *Running Boston’s Bureaucratic Marathon*, p. 21.

barrier of installing a second kitchen in their home. Farm families are not subject to similar regulations and are somehow presumed to operate facilities that are safe and sanitary.

There is little doubt, however, that in-home catering is a thriving, if illegal, sector in Boston, serving as an important point of entry for entrepreneurs. In some cases, entrepreneurs are testing the market to determine whether their products are of good enough quality to attract customers. In other cases, illegal in-home caterers may be operating as a regular business, without any intention of expanding. “Everybody starts off illegal at catering,” says one caterer in Boston’s West Roxbury section, which has grown from an in-home business to a commercial operation with its own take-out restaurant and 32 part-time employees.<sup>70</sup> Even when such a firm surfaces and becomes legal, however, it faces a law which requires a catering firm to obtain a special, temporary permit each time it caters a function in a jurisdiction other than the one in which it is based.

Food preparation and sale have served as traditional means for lower-income and immigrant groups to create products of interest to more affluent markets. Thus, restrictions on catering and in-home food preparation become an important issue. To date, there has been no effort to legitimize the informal markets that have developed; their participants remain at risk of prosecution and face problems in obtaining expansion financing because of their “gray market” status.<sup>71</sup>

Local policies enhancing the entrepreneurial climate for small businesses are hard to identify in-home food preparation. However, the advent of farmers’ markets and the informal tolerance that has greeted the sales of homemade baked goods are steps in the right direction. So, too, is the development of a trade group—the Federation of Massachusetts Farmers’ Markets—an avowed proponent of outdoor sale of such products. These developments may help spur reforms in the future that could further encourage entrepreneurship in this area.

#### **4. Hair Braiding**

African-style hair-braiding emerged as a singularly popular style in the black community of the 1990s. (This popularity, by the way, is international. Hairbraiders can be found in London, Kingston, and Johannesburg, as well as New York, Boston, and Los Angeles.) Prominent African-American female role models, from Whitney Houston to Cheryl Miller, can be seen with their hair in intricate cornrow braided styles. Those who fashion such hair are skilled craftswomen who have, in all likelihood, apprenticed to other women, in passing along a black community tradition. Hairbraiding, like in-home childcare, offers a chance for women to capitalize on skills they have learned informally but for which there is clearly a market demand. Often, hairbraiding can be done in one’s own home, without any significant capital investment. “Kitchen salons surge in popularity,” headlined the *Boston Globe* in October 1995, “as black women seek out natural look.”<sup>72</sup>

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<sup>70</sup> Interview with David J. Bobb, Research Associate, Pioneer Institute for Public Policy Research, Boston, Massachusetts.

<sup>71</sup> The solution to this inequity does not involve extending draconian standards to farm families nor cracking down on existing urban in-home caterers but rather to devise a common sense test for both urban and rural in-home food preparers—test the product rather than set burdensome standards for the process. This might mean unannounced spot-checking of finished food products by public health departments, as well as full disclosure, in the form of a posted sign by vendors that their products were baked at home in a noncommercial kitchen. One can only wonder whether the existing high standard actually harms the public health by forcing home bakers underground. Health authorities would be well advised to survey locally owned restaurants—for informational, not law enforcement, purposes—to determine whether homemade goods are widely for sale already. As with standards for in-home childcare, a common-sense standard for testing finished products may actually serve as an increased safeguard to public health—and a boon to entry-level entrepreneurs.

<sup>72</sup> Pamela Reynolds, “Homespun Hair; Kitchen Salons Surge in Popularity as Black Women Seek Out Natural Look,” *Boston Globe*, October 25, 1995.

In-home African-style hairbraiders, however, run afoul of two major forms of regulation—the steep requirements for traditional, nonbraid-related cosmetology training, which must be met to obtain a license to perform hair-related work, and zoning laws that govern in-home businesses.

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A hairbraider, to be licensed, would have to learn manicuring, makeup, permanent waves, hair coloring, and other skills that seem clearly distinct from braiding.

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To become a licensed cosmetologist in Massachusetts, one must—in addition to such modest costs as \$50 for a hairdresser’s license and \$89 to take the test administered by the state Board of Cosmetology—spend \$5,000 to \$8,000 for a 1,000-hour course at an approved cosmetology school. A legally required apprenticeship mandates a two-year period before a licensed cosmetologist is permitted to operate a business. These are requirements that could seem appropriate were it not for the fact that training at traditional schools of cosmetology has nothing to do with African hairbraiding. African-style hairbraiders do not learn their skill at such schools, and the skills taught there do not pertain to African-style braiding. A hairbraider, to be licensed, would have to learn manicuring, makeup, permanent waves, hair coloring, and other skills that seem clearly distinct from braiding. The effect of this steep, yet irrelevant, requirement is that most hair braiders operate illegally. They are then forced to remain circumspect in opening their doors or advertising their wares. No matter how successful one is in the underground economy, one can never make the next step toward mainstream status and obtain bank loans, for instance, if regulation stands in the way. In-home braiders who develop a following and want to expand into their own storefronts, hire others, and start a full-time business are inevitably inhibited by the fact that such prominence can lead to notice by the authorities.

## B. Home-based Businesses

In-home hair salons are a subset of the larger issue of in-home businesses generally. Any enterprise that generates foot traffic in a residential area is likely to generate controversy. If the area is zoned strictly for residential use, in-home businesses are not permitted. Creating exceptions is likely to be a fractious process; even in-home medical offices for psychiatrists and psychologists can be unwelcome by neighbors. Nonetheless, in poorer neighborhoods where there is a need both for an increase in employment opportunities and commercial enterprises, in-home businesses confined in their operating hours so as not to pose a nuisance to neighbors could exist.

In principle, many businesses could begin at home. Few businesses have the financing to start up with complete staffs, workshops, and office area. Technology is making it even easier—sometimes necessary—to start up a business from home: cell phones and pagers give businesses mobility. Computers allow information to be stored efficiently and in small areas. Moreover, most businesses, by starting out small, have minimal space needs. Even a nail-care salon could start out with a chair, good light and ventilation, and the essential tools fit neatly and compactly near the work area.

Local zoning codes, however, often hamstring the start-up of small businesses and limit their potential to expand and grow. Boston’s Article 80 defines an “Accessory Home Occupation” to include “sewing, piano lessons, tutoring, and similar uses which are clearly incidental to the dwelling for dwelling purposes and do

not change the character thereof.” While seemingly unobjectionable, this definition hides many other potential pitfalls.

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Local zoning codes, however, often hamstring the start-up of small businesses and limit their potential to expand and grow.

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For example, Article 10 of Boston’s Zoning Code specifies that home-based businesses cannot:

- Use more than 25 percent of the floor area (or rear yard) of the main building (or lot) for business purposes (Section 10-1);
- Be visible in front or side yards (Section 10-1);
- Employ anyone not living in the home (Section 10-2);
- Maintain inventory (Section 10-2);
- Use windows to display or advertise to attract customers other than “professional announcement signs” (Section 10-2);
- Conduct a business office open to the public (Section 10-2); or
- Have public access or generate traffic flow as a result of the business.<sup>73</sup>

These restrictions are designed to limit any visible sign of business activity outside the home and in the neighborhood, but they also regulate the character, content, and professionalism of the business. For example, Boston’s zoning code arbitrarily prohibits any business with an employee who lives outside the home. The zoning code does not prohibit multiple employees; it just discriminates against employees who do not live in the home. Thus, a business can pay a secretary, receptionist, or bookkeeper as long as they reside in the home. Whether the employee lives in the home or not, the impact on the neighborhood is virtually nonexistent.

Numerous other businesses and occupations could run afoul of the law:

- A **home remodeling contractor** could not operate from his home if clients came to the home to inspect blueprints or go over cost estimates for jobs. Multiple trips to and from sites and appointments could generate vehicle and pedestrian traffic that officials might consider inappropriate for the neighborhood. A home-improvement contractor would also own and use mechanical or electrical equipment that is not normal for domestic use, or store materials in the house and garage that could exceed the 25 percent space limitation.
- A **catering business** would find these regulations difficult as well. The caterer’s kitchen might constitute more than 25 percent of the floor area, once cooking and food-preparation areas are considered. (Storage of food could be considered inventory.) Anyone hired to help in the kitchen to prepare food would be an employee not living in the home.
- A **retail store** would not qualify because more than 25 percent of the floor area would likely be used for the business (e.g., on the first floor), the business involves the receipt, delivery, sale, and storage

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<sup>73</sup> Jeffrey Hampton, Zoning Administrator, City of Boston, interview with David Bobb, Pioneer Institute, August 27, 1999.

of merchandise, and customers would come into the house to purchase goods and services. In fact, virtually any service in which the proprietor meets with customers one-on-one would be prohibited under Boston's zoning code.

- A **nail salon/beauty parlor** would not qualify because it would produce traffic in greater frequency than normally found in the adjacent residential area. It also might run up against the floor-area limitations.

As a result, businesses that could be easy to start up and require little capital end up eating up revenues for commercial office rent, commuting time, duplicative utilities and telephone expenses, and numerous other restrictions. When combined with more specific licensing regulations for individual businesses, the costs can easily become prohibitive. These regulations also limit the ability of small businesses to expand and encourage them to stay underground.

Businesses are restricted in residential neighborhoods because most zoning codes presume that homes and commerce are fundamentally incompatible and should be segregated. By keeping commercial business outside of residential areas, spillover effects such as noise, traffic, and pedestrian activity can be minimized. Yet, local zoning codes and home-based business regulations rarely focus on the impacts of home-based businesses. Rather, they direct their regulations at the characteristics of the business.

## C. Conclusions

In sum, state and local regulations can produce formidable obstacles to entrepreneurship in Boston. Extending the analysis from taxicab regulation to additional cases such as street vending, in-home day care, catering and home-based food sales, and home-based businesses, we can evaluate Boston's regulatory climate based on the five criteria outlined in the previous section:

1. **Regulations rarely address performance and quality issues.** In-home childcare applications were long on inputs, but low on performance criteria. In the case of in-home food services, the Massachusetts health code requires food preparation in a second kitchen, irrespective of the health consequences or effects on food quality. In the case of hair braiding, education requirements for obtaining a cosmetology license have no relationship to the quality of the service provided. Similarly, street vendors are prevented from selling their wares outside of designated areas even when demand might exist for their products.
2. **Regulations tend to focus on compliance with rules.** Bureaucratic permitting and licensing seems to dominate the state and local regulatory framework: hair braiders must take courses to learn skills they would never apply in their trade; in-home day care providers must negotiate a lengthy application process; and home-based business regulations apply generally to all types of business regardless of tangible neighborhood impact. Instead, regulations focus on across-the-board criteria such as percentage of home space devoted to commercial use, employment of nonresidents, and visible signs of business activity.
3. **Regulatory approaches are diverse.** Specific regulations appear to vary by industry and business type. State agencies regulate in-home day care services, while the city permits street vendors. The planning department oversees land-use and zoning issues, while the department of health regulates catering and in-home food preparation. Identifying the appropriate agencies for obtaining permits is clearly a daunting task, particularly for those unfamiliar with the state and local regulatory framework.

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Businesses are restricted in residential neighborhoods because most zoning codes presume that homes and commerce are fundamentally incompatible and should be segregated.

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4. **Regulation can significantly complicate business ownership.** The application for an in-home day care provider was complicated and burdensome. The state’s director of jobs and community services called it a “tough process.” Not surprisingly, the state receives hundreds of reports of unlicensed day care facilities. Similarly, many of the restrictions on catering services and in-home food preparation are ignored to avoid excessive permitting and regulations that add costs (e.g., second kitchens, event-specific permitting) while adding little to the value of the service provided.
5. **Regulations favor existing businesses.** By virtue of the complicated application process, established companies have an advantage over upstarts. Catering across city boundaries requires businesses to obtain a new permit for each event outside their home city. In the case of hair braiding, education mandates with no reasonable relationship to the service provided add as much as \$8,000 to the start-up costs of a new business. Similarly, restricting street vendor permits to specific locations increases competition and congestion in those areas, favoring existing permit holders over new comers.

The evidence from the case studies in Boston suggests that the regulatory framework significantly complicates the process of starting new businesses. Moreover, these complications add to the costs of starting a business without compensating benefits from enhanced service quality or product. Indeed, the main impact appears to be creating barriers to entry that limit competition. Thus, the effect of many of these rules may be to reduce service quality and variety.

These regulatory burdens likely fall disproportionately on low-income, less educated, and minority applicants because of the time, resources, and knowledge of the system required in order to obtain legal permission to operate their business. While Boston is making some headway in streamlining the process (see Section Seven), the process itself suggests structural reforms might be more effective in increasing economic opportunity in Boston than ad hoc tinkering with existing laws. These issues will be explored in more depth in the final parts of this report.

Part 4

# Holding Up Progress in Boomtown: Dallas

The Dallas metropolitan area is big and getting bigger. According to the Greater Dallas Chamber of Commerce's web page, the City of Dallas was the ninth largest city in the United States with more than one million residents.<sup>74</sup> The greater Dallas metropolitan area has a population of more than three million, making it the 10th largest in the United States. About 285 people per day moved to the Dallas/Fort Worth (D/FW) area between 1990 and 1996, a total of more than a half-million residents, the third largest gain of any U.S. metropolitan area and nearly one-fourth of Texas's total population growth. Dallas residents are ethnically diverse with citizens from all over the world, including the nation's 12<sup>th</sup> largest Hispanic population, 17<sup>th</sup> largest Asian population, and 10<sup>th</sup> largest African-American population. The Dallas area has a young labor market with a median age of 32.1 years compared to the national average of 34.8 years.

	U.S.	Dallas
Employment growth	1.5%	5.1%
Personal income growth	5.6%	7.5%
Per capita income	\$24,436	\$26,906
Unemployment rate	4.9%	3.7%

Source: *Statistical Abstract of the United States, 1998* (U.S. Department of Commerce: Washington, D.C., 1998), p. 403.

Texas in general and Dallas in particular enjoy a favorable business climate. Neither the city nor the state has a personal income tax. The state does not have a property or unitary tax, but it does have a “franchise” tax on corporations (but not on individual proprietorships or partnerships).<sup>75</sup> Aside from low taxes, Texas is attractive because it is a right-to-work state with the fourth lowest number of unionized workers (6.6 percent).

The pro-business attitude of state and local governments in Texas has contributed to the economic boom in the D/FW metropolitan area. Nevertheless, regulatory barriers to business formation exist which, if lowered,

<sup>74</sup> Greater Dallas Chamber of Commerce Web site, <http://www.gdc.org/dfacts.htm>

<sup>75</sup> This is similar to a corporate income tax—it is a tax on the greater of a corporation's net taxable capital (0.25 percent) or its earned surplus (federal net taxable income plus compensation paid to officers and directors, taxed at 4.5 percent.)

could lead to even greater prosperity, particularly in lower income areas of the City of Dallas. These obstacles range from the mundane like filling out and/or posting required paperwork to investing substantial resources in building infrastructure to meet city specifications and ensuring that employees are properly licensed. Rather than examine the myriad of local regulations every Dallas entrepreneur faces this section examines just a few of the regulatory hurdles involved with the creation of a new business.

## A. Local Barriers to Entrepreneurship in Dallas

There are as many types of industries and businesses as there are ways to describe working conditions and activities. However, for the purpose of examining barriers to entrepreneurship in Dallas, in this part we discuss two broad categories of entrepreneurial endeavors: home-based businesses and standard businesses with site-specific commercial, industrial, and/or retail space.

### *1. Home-based Business in Dallas.*

In Dallas, by far the most extensive regulation of home-based work is at the local level. Indeed, more than 90 percent of local communities have ordinances regulating home-based businesses.<sup>76</sup> Dallas has neither the most draconian restrictions on home-based businesses (some communities outlaw them entirely), nor the most lenient ordinances.

Dallas, like most municipalities, has general prohibitions on activities that create “excessive” noise, noxious odors, traffic problems, or other standard nuisances. Beyond these performance-based issues, the Dallas Development Code states that persons engaged in home-based businesses shall not:

- Sell any products on the premises;<sup>77</sup>
- Operate before 8:00 a.m. or after 6:00 p.m. for outdoor activities and before 8:00 a.m. or after 10:00 p.m. for indoor activities;
- Advertise either on or off premises via a sign, display, or in a telephone directory; and
- Use any equipment other than “ordinary” home appliances.<sup>78</sup>

In addition, home-based companies cannot have more than 10 patrons on premises at one time and cannot employ more than two nonresidents on the premises—with all nonresident employees limited to no more than four hours work (individually or collectively) per week.

All-in-all, however, these restrictions are unobtrusive compared to cities such as Boston, with no apparent restrictions on the type of service or product that can be provided.

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<sup>76</sup> Joanne Butler and Judith Getzels, *Home Occupation Ordinances* (Chicago: American Planning Association, 1985), p. 5.

<sup>77</sup> While we have been unable to determine whether this also restricts mail order and computer-based sales from the home or whether it just disallows the actual transfer of merchandise between a seller and buyer in the seller's domicile, this prohibition does extend to retail sales such as those made by Avon, Amway, and Tupperware. Salespeople for these and other products are evidently allowed to make sales in the buyer's home but not to make such sales in their own homes.

<sup>78</sup> Dallas Development Code, Part II, Sec. 51 A-4.217, p. 260.

## ***2. Regulatory Barriers to Standard Businesses in Dallas***

An entrepreneur in Dallas who wants to build a new office, retail, commercial, or industrial space must first obtain a building permit, which represents the city's authorization to begin construction. This permit is issued only after a comprehensive review of development and construction plans to comply with city policies for development and construction. The process to obtain a building permit averages two to three weeks for new commercial permits, relatively short by other city experiences. Construction for a new business does not begin until a Master Permit is issued. The minimum fee for a master permit is \$46.00 (which is just the cost of filing—other costs apply if the permit is granted).

After a Master Permit is issued and construction begins, City of Dallas staff must verify that the building is built according to the Dallas development and construction codes. The city inspects the construction process at each stage of development. A permit expires within 120 days of being issued if work has not been started. When a building reaches completion, there is a final inspection. Before the building can be occupied, a certificate of occupancy must be applied for and approved.

Utility services will not be activated unless these structures comply with city codes. To request an inspection individuals can use the Automatic Inspection Request System. This is an automated phone-in system that allows individuals to schedule an inspection over the phone. Businesses need to provide approved plans that must be on site, the master permit must be posted on site, and the address of the site must be posted and visible from the street. Also, individuals must ensure the inspector is notified of the need for the inspection at each stage of construction. The cost of this inspection process is paid through permit fees. A Certificate of Occupancy costs \$175.00; partial or temporary Certificates of Occupancy are \$104.00.<sup>79</sup>

### **a) Development Impact Review**

When city of Dallas staff concludes, based on standards adopted by the city council that a development is likely to have a significant impact on surrounding land uses and require additional infrastructure, a Development Impact Review is required to assess the proposed development's impact on traffic generation, building site and layout, buffering, and landscaping. The Development Impact Review process may take no more than 30 days after submittal of a completed application. It is normally processed within 10 working days concurrently with the Master Permit Review. The fee for the Development Impact Review cost is \$50.00.

### **b) Special Parking Agreement**

In some areas of Dallas targeted for urban renewal or redevelopment, additional parking is not required. A special parking agreement allows individuals to provide part or all of the required parking for this development on site rather than sharing required parking spaces with another development. In areas where parking is required, the business owner is obligated to provide one parking space for every 100 square feet of office space. If a business had trouble providing the required number of parking spaces for a development, a Shared Parking Agreement, a Remote Parking Agreement, or Packed Parking Agreement can provide

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<sup>79</sup> The costs cited for the Master Permit, Inspections, Certificate of Occupancy, etc. are only the direct costs. They do not include indirect costs such as the cost of hiring lawyers and architects to ensure that all codes are complied with or man-hours spent researching relevant business regulations and filing paperwork. There are more than 15 other permits and fees involved in the building construction, inspection and service process, ranging from \$208.00 for a sidewalk waiver to \$2.00 per permit issued by mail for postage and handling.

flexibility in providing the required parking. In order to establish such an agreement, individuals need to provide five copies of a site plan drawn to scale and a list of all uses showing floor areas and hours of operation for each. The cost is \$375 dollars for the first 50 special parking spaces, plus \$12.50 for each space over 50.

#### c) Street Lighting

Street lighting is installed on City of Dallas streets for the purpose of traffic and pedestrian safety. If a business is constructing a new street within or adjacent to its development, the Dallas planning regulations require the installation of street lighting at the time of development. The street-lighting process time depends upon the applicant. The minimum time for the process to be completed is one month. There are no processing fees. Minimum cost for a street light is \$300. The average cost is \$1,000 per light.

#### d) Landscape Plan Review Process

Landscape plans are required by the City of Dallas under Article X of the Dallas Development Code for all new developments and some expansions. Builders of new developments are required to file a landscape plan when making an application for a construction permit. An application cannot be permitted without a completed landscape plan. Additionally, landscape plans may be required for the authorization of some business modifications or expansions. All permitted landscaping must be maintained in good condition for a minimum of 24 months after construction is complete and a certificate of occupancy issued.

##### **Information Necessary for a Proper Landscape Review Plan**

- Date, scale, north point, and the names, addresses, and telephones numbers of each property owner and the person preparing the plan;
- Location of existing boundary lines and dimensions of the lot, the zoning classification of the lot, and the zoning classification of adjacent properties. A vicinity map should also be attached to or made part of the plan;
- Approximate centerlines of existing watercourses and the location of the flood plain, escarpment zone, and geographically similar areas, as those terms are defined in Article V, if applicable;
- Approximate location of significant drainage features and the location and size of existing and proposed streets and alley, utility easements, driveways, and sidewalks on or adjacent to the lot;
- Project name, street address, and lot and block description;
- Location, height, and material of proposed screening and fencing;
- Locations and dimensions of proposed landscape buffer strips;
- Complete description of plant materials shown on the plan, including names (common and scientific) locations, quantities, container or caliper size at installation, heights, spread and spacing;
- Location and type of all existing trees on the lot over six inches in caliper must be specifically indicated;

- Complete description of landscaping and screening to be provided in or near off-street parking and loading areas, including information as to the amount (in square feet) of landscape area to be provided internal to parking and loading spaces;
- Indication of which protected trees will be removed during construction and how healthy, existing trees proposed to be retained will be protected from damage during construction; and
- Size, height, location, and material of proposed seating, lighting, planters, sculptures and water features.

All businesses wishing to construct new buildings or expand existing facilities must comply with the construction review process described above. Because of the cost involved, this process can be especially daunting to small, start-up companies.

These general regulations affect all businesses. Some industries face a host of rules specific to the industry. The taxicab business is one such industry.

## B. State Regulation in Action: Beauty Salons and Barber Shops

Even when local regulatory burdens may be small, state regulations can create significant barriers for new businesses and microenterprises. Beauty salons, barber shops, and their associated vocational schools are a highly regulated industry in Texas, and they are typically regulated through state law, not local ordinances. Though regulations affect both salon owners and employees, salon owners are especially burdened since regulations directed at ensuring employees' qualifications indirectly impose substantial costs upon the salon owner.

In Texas, every person wishing to become a hairdresser, esthetician, nail technician, or massage therapist must be licensed by the state, a process that first requires logging a certain number of hours at a state-regulated and licensed beauty school and passing qualifying exams. The cost of beauty school averages between \$5,000 to \$8,000.<sup>80</sup>

Regulations of beauty schools are somewhat stricter than on salons. For example, a school must have a separate chair for every student (sharing of chairs is not allowed), whereas salons may allow sharing of the same space. However, in both settings, 150 square feet must be set aside for each workstation or chair.

Bruce McGaha, a 12-year veteran of the cosmetology business and owner of Mouton's salon in Dallas has, over the years, seen the goal of beauty schools become simply to teach students how to pass the state-mandated exam.<sup>81</sup> The result is that critical and practical information is never obtained in school, and the salon owner has to retrain the recently licensed beauty school graduate. As a result, salons that have a desire to present well-trained, educated hairdressers to the public have had to develop their own training and manuals to compensate for the lack of training received at the licensed beauty schools.

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<sup>80</sup> Often, students are awarded Pell grants to pay a percentage of the total cost. Pell grants are one-time funding that does not have to be repaid. Most of the time, the grants are awarded to a student, but go directly to the school, effectively lowering the school's costs.

<sup>81</sup> Interview with Bruce McGaha, Owner/Proprietor, Mouton's Hair Salon by Sterling Burnett, Sr. Policy Analyst, National Center for Policy Analysis, January 2000.

Mouton's has designed a program to train these new graduates. New hires are paid a regular starting salary of \$300 weekly (about \$15,000 per year), plus over 15 hours of training on overtime. The salon uses existing employees to teach the trainees. Two disadvantages of using existing personnel to teach the new employees are that trainers must be separately licensed, and the time used for training is unproductive with regard to direct revenue—while they are training they are not cutting hair or styling. With the cost of the new hire's weekly pay, the opportunity cost of missed revenue production, plus the cost of the existing personnel used to teach, new employees do not “break even” for more than seven months, an investment by Mouton’s of more than \$8,000 per employee. Since Mouton's tries to hire every six weeks to two months, this can amount to a substantial cost over a year.

### **Mouton’s Hair Salon**

Bruce McGaha and his wife founded Mouton's Salon about six months before they were married more than nine years ago. He had a background in retail and service industry. Both traveled extensively around the nation to observe trends in the professional hair-care industry.

Bruce realized that if their salon were to run efficiently, it would have to stand out in its particular market. So, they specialized in “high-end” cuts and styles, and Mouton's workers were hired as employees (rather than independent contractors). McGaha paid them a salary, bonuses, and health benefits. He also contributes to a 401K retirement plan and provides paid vacations and holidays. Mouton Salons invest in continuing education for its workers. In an industry where workers are regularly treated as contract workers or as independent businesspeople renting space, these benefits are rare.

Moreover, specialized in-house training has become a trademark of Mouton’s. McGaha’s training and retention programs provide consistency among stylists and allows his shop to average \$50 per cut. Recently, when the salon moved to a new building and location, two stylists left, but virtually all their customers stayed with the salon, a testament to the brand loyalty created by McGaha and his wife through their salon.

Over the years, Mouton’s has grown to employ 18 people and generated \$750,000 in sales in 1999.

Space constraints stemming from the floor layout in the building that McGaha currently leases limit the number of chairs in his salon to eight. This, coincidentally, is also the number of chairs that the 150-foot requirement would allow. However, if the floor layout were different (i.e., the shape of the space were more open), McGaha could fit other chairs in the space, increase the number of profit centers and employees, and improve his marginal profit from the space—his fixed costs would be spread over more chairs. Mouton’s recently bought its own building and has hired an industry consultant to help design the work station layout to maximize the number of chairs within the confines of the 150-square foot rule. McGaha argues that absent the regulations, he would be able to install more chairs without any threat to the safety or comfort of patrons or employees.

The state maintains a Barber Board and a Cosmetology Board to develop standards, issue licenses, and undertake testing and inspections to ensure adherence to the rules and, when the rules are broken, assess

penalties. Each salon and barbershop has to pay a yearly licensee fee to these boards in order to keep a store license. Each licensed hairdresser and barber in the state also has to pay a yearly fee to maintain the individual license issued to them. The license cost for the salon is \$50 for two years. The cost to the individual hairdressers of the licenses is also \$50 for two years. At last count there were over 22,000 hairdressers and over 10,000 licensed retail salons registered in the State of Texas. License fees based on these figures would come to almost \$1 million, not including the cost of taking the state exam. These costs taken as a whole represent a loss of revenue to the salon industry and ultimately are borne by consumers.

A multitude of regulations add to the cost of doing business in the salon industry. Among them are regulations that stipulate that barber shops and beauty salons which share the same building must be completely separated by a permanent wall with separate entrances. In addition, other regulations stipulate where licensees, regulations, and hours of operation must be posted. These regulations also stipulate the minimum size of the print (one inch) of the lettering of these postings. Other regulations restrict maids from handling rolling pins, rollers, or clipping instrument operators and specify that licensed operators may not make house calls—except to work on incapacitated or deceased persons and then only if an appointment is made through the salon. In sum, entrepreneurs in the barber/salon industries face more than 150 specific state regulations daily.<sup>82</sup>

McGaha expressed his frustration with salon regulations, especially the lack of accountability from those who are imposing regulations. “It doesn't matter if it is from my own industry, the federal government, or even some local government regulation, it seems that there is not the same responsiveness coming from them, that is required of me.”<sup>83</sup>

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## C. Conclusions

Compared to Boston, Dallas's regulatory burden appears light. Regulatory barriers appear to be limited to a few occupations with histories of overregulation such as taxicabs and cosmetology.

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<sup>82</sup> Some costs to retail salons are of federal government vintage—primarily, IRS tax regulations. According to the IRS, industries that derive part of their revenue from tipping, must report a percentage of income as tips. This includes the restaurant industry and the salon industry as well. If a certain percentage of the income is not reported as tips, the IRS can audit an individual for non-payment of the income tax. If the individuals do not accurately report their taxes, their employer may be held responsible for the payment of the payroll tax on that non-reported income. To insure that the salon is never put into this situation, the salons who have employees often require a record of the tips. The salon then pays payroll tax on tips directly. The problem lies with the fact that this is essentially gift income from the customer. The salon, however, is held responsible for the payment of the taxes on the gift income. This is an added cost of doing business that cannot be budgeted in any particular year because of the variance in the gifts. The tip income is usually about 20 percent of total wages paid. This means an extra 20 percent of payroll taxes paid on income not generated by the retail salon.

<sup>83</sup> Bruce McGaha, Mouton's Salon, Bedford, Texas.

1. **Regulations rarely address performance and quality issues.** While the city’s taxicab regulations do not address quality issues directly (see Section Two), the city’s home-based business ordinances include criteria based on nuisance and quality of services provided.
2. **Regulation tends to focus on compliance with rules.** The city’s restrictions on home-based businesses are primarily rule-driven. The Dallas development code uses general prohibitions on business activity outside the home, irrespective of their likelihood for creating nuisances or external impacts.
3. **Regulatory diversity.** The City of Dallas appears to fare well on this standard since it engages in relatively little regulation. The most onerous regulations on the local level are directed at a single industry: taxicabs.
4. **Regulations complicate business ownership.** Dallas’s regulatory climate appears more streamlined and friendly than its regulation of taxicabs suggested. Most businesses are required to obtain a permit from the city, but licenses are more often required by state government than the City of Dallas (e.g., cosmetologists and beauty salons). If a new business requires building or renovating an existing structure, however, numerous regulations are imposed on businesses, including mandates for development impact review, landscape design review, and off-street parking requirements.
5. **Regulations favor existing businesses.** This is most clearly evident in the case study of salons. Local regulations require training that adds as much as \$8,000 to the start-up costs of the business.

For the most part, Dallas’s regulatory framework is streamlined and administrative, suggesting fewer barriers to entrepreneurship than in other cities such as Boston, Los Angeles, or Atlanta.

### **Anitiquated State Laws Entangle African Hairbraiders<sup>1</sup>**

While the City of Dallas appears to support entrepreneurship generally, the State of Texas can erect significant obstacles. The state’s attempts to address regulations of African hairbraiding have been clumsy at best. The Texas Cosmetology Commission relentlessly pursued Dallas hairbraider Dana Brantley in 1995 and 1997 for operating without a cosmetology license.<sup>2</sup> Brantley received a criminal conviction. Later, her studio was raided by no less than seven sheriff’s deputies.<sup>3</sup>

Texas already had a statute regulating hairweaving on the books, including a licensing exam, but African-style hairbraiding is fundamentally different from traditional hairweaving. Partly in response to complaints about the treatment of African-style hairbraiding, Texas modified its already existing hairweaving license in 1997 to apply to both hairweavers and hairbraiders.<sup>4</sup> The 300-hour curriculum, which was designed over 50 years ago, was not modified, however.<sup>5</sup> Nor was the exam altered. Several braiders failed the antiquated test, and almost no braiders have bothered to secure the license.<sup>6</sup> Two years after Texas included braiders under the old hairweaving curriculum, there were less than 50 licensed hairweavers/hairbraiders.<sup>7</sup>

Yet another problem for Texas braiders is that they are not allowed to teach braiding, except in a licensed cosmetology school. There are cosmetology instructors, manicure instructors, and facial instructors, but no hairbraiding instructors and no hairbraiding schools.<sup>8</sup> Braiders who want licenses, therefore,

have the choice of going through either a hairweaving course (of which there are almost none in the state) at a licensed cosmetology school, or a 1500-hour cosmetology course at a licensed cosmetology school. And neither of them teach African-style braiding.

This situation could easily be remedied by exempting braiders from cosmetology licensing requirements altogether. At a minimum, Texas should allow braiders to pass on their craft, as they have done for thousands of years.

Notes:

- <sup>1</sup> This case study was contributed by Dana Berliner, Staff Attorney, Institute for Justice, Washington, D.C.
- <sup>2</sup> Linda Jones, "Braider Feels Short of Her Rights to Operate," *Dallas Morning News*, Oct. 29, 1997; Kaylois Henry, "Braid New World," *Dallas Observer*, Jan. 30, 1997.
- <sup>3</sup> Ibid.
- <sup>4</sup> Ibid.
- <sup>5</sup> See 22 Texas Admin. Code § 89.72(7).
- <sup>6</sup> Interview with Taalib-Din Abdul Uqdah, Director of American Hairbraiders and Natural Haircare Association, by Dana Berliner, Institute for Justice, Washington, D.C..
- <sup>7</sup> Ibid. Forty-eight hairbraiders are currently licensed by the State of Texas and the licensees include weavers licensed before the addition of braiders. So the actual number of braiders is probably even less.
- <sup>8</sup> See 22 Texas Admin. Code § 89.17.

## Part 5

# L.A. Story

**A**s the center of the world's 12<sup>th</sup> largest economy, Los Angeles is the second largest city in the United States. Growth has added nearly one million people over the last decade, bringing the city's population to 3.7 million and its labor force to 1.8 million. In 1997, Los Angeles created 2,475 new businesses, more than any other city in the nation, and helped boost the region's business base to 208,465. In 1998, 130,000 new jobs were added to the local economy.

Small businesses make up 99 percent of all tax-paying businesses and employ 70 percent of the city's workforce. Minority businesses seem to be growing rapidly. Over the past five years, the number of African-American owned businesses rose by 26 percent; Asian-owned businesses by 160 percent; and Latino-owned businesses doubled. Almost 40 percent of L.A.'s small businesses are minority owned. Half of the county's 300,000 Latino businesses are immigrant owned, while three-quarters of the county's Asian businesses are immigrant owned. These minority-owned businesses are an important source of employment for the county's varied minorities communities: more than 40 percent of the minority businesses employ a predominantly minority work force.

Despite this growth, entrepreneurs and small businesses within the City of Los Angeles face a daunting array of programs, tools, and regulations that impact their livelihood. Federal, state, and local governments seem to vacillate between obstructor and abettor. In some cases, such as taxicab regulations, the obstacles seem insurmountable and are almost completely locally driven. In other cases, numerous non-profit and for-profit firms and organizations provide valuable services to small entrepreneurial businesses, particularly in South Central, one of L.A.'s poorest inner-city areas. Government policy, in particular, often sends conflicting signals to small entrepreneurial businesses—giving with one hand and taking away with the other. Not surprisingly, a 1999 survey of small businesses in L.A. County found that half of the 10 most serious problems they faced were created by government, whether through taxation, regulation, or the permitting and licensing process.<sup>84</sup> State and federal taxes and regulations ranked higher on the list of problems than local regulations and taxes. Latino and Asian business owners cited seven governmental issues as a serious problem for their business.

Small business assistance programs, while not described in detail in this section, can be categorized into three broad areas: information and training, access to capital, and government contracts. Information services tend to concentrate on how the licensing and permitting processes work, opportunities within the community and government, tax issues, etc. Training programs provide small business with access to increased labor and

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<sup>84</sup> *L.A. Times Small Business Survey, L.A. County, May 26 through August 19, 1999.* The polling included a combination of mail surveys and telephone interviews, and businesses were identified through Dun & Bradstreet's business database.

managerial skills. Services relating to capital access and underwriting are provided as well by all three. These programs will be discussed in greater detail in Section Seven.

Public-sector barriers to start-up entrepreneurs come primarily in the form of regulation at the state and local levels, although Los Angeles's earnings tax can also be onerous. Small businesses face a network of licensing, permitting, inspections, tax, and zoning hurdles. Broad-based clean air and water regulations, regional planning boards, living-wage ordinances, and economic development/redevelopment agencies also impact the ability of a small business to start up. While some barriers are narrowly focused on certain types of businesses, or businesses located within certain geographic zones, many are part of broader policies where impacts on small businesses were rarely considered.

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## A. State-level Regulation

One of the first hurdles an upstart entrepreneur faces is the array of state agencies that regulate businesses of all sizes and industries. The California Department of Consumer Affairs licenses more than 2.5 million Californians in more than 200 different professions ranging from doctors and accountants to building contractors. Among the state agencies licensing various professions is the Bureau of Barbering and Cosmetology (BBC). The BBC licenses anyone charging a fee for cutting hair, hairdressing, hair removal, nail care, or skin care.<sup>85</sup> The fees are relatively modest (\$25 to \$50 per license), but the licensing requirements can be quite high. Barbers and cosmetologists are required to take over 1,500 hours of instruction in a school approved by the BBC (Table 3).<sup>86</sup> Manicurists are required to take 400 hours of classroom instruction.

Moreover, the California Code of Regulations is very specific about the curriculum schools must provide. The nail-care curriculum, for example, requires 10 hours of instruction on the Barbering and Cosmetology Act and associated BBC rules and regulations, 10 hours on cosmetology chemistry, 10 hours on bacteriology, anatomy, and physiology, 15 hours on water and oil manicures, and 15 hours on the application of artificial nails.<sup>87</sup> In addition, the code specifies that students must perform at least 80 applications of artificial nails, 60 applications of nail tips, and 40 applications of nail wraps and repairs.<sup>88</sup>

These educational requirements can be financially burdensome. A 1,600-hour course in a licensed cosmetology school can run \$6,000 or more.<sup>89</sup> A slimmed down course for nail manicurists can easily surpass \$1,500. The sweeping language of the law requires virtually anyone working in hair care to obtain a

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<sup>85</sup> These professions are regulated by Title 16, Division 9 of the California Code of Regulations, <http://www.dca.ca.gov/barber/laws/art7.htm>.

<sup>86</sup> Bureau of Barbering and Cosmetology, Sacramento, California, <http://www.dca.ca.gov/barber/licensing.htm>.

<sup>87</sup> Title 16, Division 9, Article 7, Section 950.4.

<sup>88</sup> *Ibid.*

<sup>89</sup> Lee Hubbard, "Hair-brained Politics," *Salon.com*, September 13, 1999; Michael Kinsman, "State Upbraided by Ruling on Hairstyling Trade," *San Diego Union-Tribune*, August 20, 1999.

cosmetology license, even when the curriculum does not address the specific needs and issues of the service provided. “According to the law,” says one spokesman for the Department of Consumer Affairs, “any type of treatment of the hair for pay requires a license.”<sup>90</sup>

	Barber	Cosmetology	Manicurist	Esthetician	Electrologist
Min. classroom (hours)*	1,500	1,600	400	600	600
Min. age (years)	17	17	17	17	17
Min. formal education	10 <sup>th</sup> grade	10 <sup>th</sup> grade	10 <sup>th</sup> grade	10 <sup>th</sup> grade	12 <sup>th</sup> grade
Written exam	yes	yes	yes	yes	yes
Practical exam	yes	yes	yes	yes	yes
Fee	\$50	\$50	\$35	\$40	\$50

\*Coursework must be in a school approved by the Bureau of Barbering and Cosmetology.

Source: Bureau of Barbering and Cosmetology, Sacramento, California, <http://www.d1ca.ca.gov/barber/licensing.htm>.

### **African-hair Braiders Run Afoul of California Law**

Until recently, African-hairbraiding required a cosmetology license in California even though hairbraiding is not addressed anywhere in the curriculum. Sabrina Reece, for example, began braiding hair out of her kitchen in high school.<sup>1</sup> Her reputation as one of the best braiders in the area grew her business to the point where she could open two small shops. After 10 years of braiding hair successfully and profitably, her thriving business was shut down. Reece was unlicensed, and California’s cosmetology board was cracking down on illegal hair stylists. After successful litigation by the Washington, D.C.-based Institute for Justice, a federal court ruled in 1999 that the application of the state’s cosmetology law to African hairbraiders was unconstitutional because it violated their due process rights.

Note:

<sup>1</sup> Lee Hubbard, “Hair-brained Politics,” *Salon.com*, September 13, 1999.

Barbers and cosmetologists are not alone. The California Contractors State License Board evaluates more than 20,000 applications for new licenses each year with about 280,000 active licenses issued.<sup>91</sup> Anyone performing work for hire on projects costing more than \$500 in labor and materials must be licensed by the State of California. All contractors must take a computer-administered exam, and all applicants must have at least four

<sup>90</sup> Quoted in Hubbard, “Hair-brained Politics.” See also Title 16, Division 9 of the California Code of Regulations.

<sup>91</sup> California Contractors State License Board, *Blueprint for Becoming a California Licensed Contractor*, Sacramento, <http://www.cslb.ca.gov/blueprint11.html>.

years of experience to qualify for the exam.<sup>92</sup> Credit for experience is given only for work performed as a journeyman (who has also completed an apprenticeship), a foreman, a contractor, or an owner-builder, all of whom must certify they have the experience, skills, and knowledge of a journeyman in their field. Licensed contractors, however, are not required to have formal classroom training, and experience in a trade can be credited toward the qualifications for the license.<sup>93</sup> The state licenses general engineering contractors, general building contractors, and 42 specialty contractors ranging from flooring to dry wall to roofing. The entire process of applying for and receiving a license can take 10 to 12 weeks and costs about \$450.

The California Department of Health Services also licenses 30 different types of health-care facilities and providers (a total of over 6,000) so that they can legally do business in California. The department also certifies over 400,000 nurse assistants, home-health aides, and hemodialysis technicians so they can provide specific services to patients and approves training programs for these health-care worker categories.

The Department of Alcohol Beverage Control regulates and issues licenses annually for the retail sales of alcoholic beverages in the State of California. Detailed personal information is required to obtain a license, including fingerprints, from all individual applicants, managers, and managing officers of applicant corporations. Moreover, an employee of the department personally advises all applicants on laws, rules, and regulations governing establishments selling alcohol or alcoholic beverages. Also, in the case of a transfer, the transferee may desire information regarding a temporary retail permit.

The application is then sent to local officials for comment and input while the application is investigated.<sup>94</sup> The act also requires a 30-day posting period, but most investigations take approximately 45 to 50 days.<sup>95</sup> Longer waiting periods are common according to interviews with store owners.<sup>96</sup>

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| <p><b>Selected State-level Agencies<br/>Regulating Small Businesses</b></p> <ul style="list-style-type: none"> <li>▪ Secretary of State</li> <li>▪ California Department of Food and Agriculture</li> <li>▪ California Department of Alcohol Beverage Control</li> <li>▪ California Department of Consumer Affairs</li> <li>▪ California Department of Health Services</li> <li>▪ California Department of Motor Vehicles</li> <li>▪ California Department of Real Estate</li> </ul> |
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## B. Local regulation

Anyone conducting business in the City of Los Angeles is required to obtain a business license from the Tax and Permit Division of the City Clerk's Office of the City of Los Angeles. The business license is renewed annually. The business license, however, is one of several permits that must be obtained. Any remodeling to existing office space requires a Building and Construction Permit. If business owners want to install a burglar alarm, they will also need a special permit, and each office must be inspected by the fire department annually. Of course, zoning

imposes additional restrictions on business uses in residential areas. The Department of Building and Safety

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> Alcoholic Beverage Control Act, Section 23987.

<sup>95</sup> Ibid., Section 23985.

<sup>96</sup> In fact, if new construction or considerable remodeling is necessary, prior approval under Section 24044 of the Act should be sought before beginning any actual work.

**Los Angeles Agencies with Regulations Impacting Small Businesses**

- City of Los Angeles Department of Building and Safety
- City Clerk's Office of the City of Los Angeles
- Los Angeles County Health Department
- Los Angeles Department of Recreation and Parks
- City of Los Angeles Department of Transportation
- City of Los Angeles Police Department
- Los Angeles City Fire Department

oversees municipal zoning, ensuring that all proposed and existing businesses are in compliance with city zoning requirements. Any sign installation requires obtaining a permit from the city as well. Thus, the permit process could easily involve more than a half-dozen city agencies (see Figure 2).

Police permits are required for many types of small businesses and must be renewed annually (see box). The applications are processed and the fees are collected by the City Clerk's Office. Additional permits from the Los Angeles fire department are required for other businesses.

**Figure 2: Business Activities Requiring Special Permits**

**Police Department**

Alarm (burglar) on premises	Antique shop
Antique show	Arcade game
Auto park	Bath business (public)
Bowling alley	Café—entertainment/shows
Card club or school	Carnival
Dance Hall	Dance, one night (public/teenage)
Dancing academy or club	Escort or escort bureau
Family billiard room	Firearm sales
Figure studio	Game, skill/science
Handbill distributing	Hostess dance hall
Junk collector or dealer	Locksmith
Massage business or technician	Motion picture show
Parade	Pawn broker
Pool room	Private patrol
Rides (mechanical)	Rummage sale
Sale-closeout removal/fire	Secondhand—auto parts
Secondhand—books/magazines	Secondhand—general
Secondhand—jewelry	Shooting gallery
Skating rink	Special officer
Swap meet operator	Towing operator/tow unit operator

### Fire Department

Assemblage occupancy	Auto fueling (w/aboveground tank)
Boarding home	Bulk distributing station
Church	Day care occupancy
Dry cleaning plant	Hazardous materials (will be elim.)
Hotels	Special school
Theaters	Motion picture theater

Los Angeles's zoning ordinance is also very restrictive for home-based businesses. All home-based businesses must obtain a permit (\$25.00) from the building and zoning department to ensure compliance with local regulations. The ordinance specifies that home-based businesses are permitted as long as the residential purpose of the building is predominant.<sup>97</sup> On the surface, most of the code appears to be driven by performance criteria. The code also stipulates that the residential character of the building and neighborhood cannot be disrupted, and the "activities associated with the home occupation are not visible from the outside of the dwelling unit."<sup>98</sup> Traffic should also be kept to levels "normal for the district" where the home is located. The ordinance even allows for one person "not residing on the premises" to be employed by the home-based business.<sup>99</sup>

Beyond these general performance criteria, the code becomes much more restrictive. Deliveries and pickups are limited to two times per day for all home occupations; clients cannot visit the home-occupation more frequently than once every hour; business-related storage cannot occupy more than 400 square feet; and no commercial vehicles (e.g., pickup trucks used for landscaping) can be parked or stored on the premises.<sup>100</sup>

In addition, entire classes of occupations are prohibited.<sup>101</sup> While some businesses have obvious impacts on neighborhoods (e.g., funeral homes, firearms manufacturing, machine shops, etc.), other business impacts of prohibited businesses are less visible. Even if the businesses do not create undue traffic or create neighborhood nuisances, the zoning code categorically prohibits animal training, upholstery, most automotive work (e.g., detailing, washing, repair), beauticians and barbers, doctors (except as a secondary office), photography lab, tow truck services, and veterinary services.

## C. Agencies with Taxing Authority

In addition to permitting and licensing requirements at the state and local levels, businesses face a variety of local taxes from numerous different agencies. All businesses are subject to state income and sales taxes, but commercial enterprises have additional taxes. More importantly, the city's tax code is detailed and complex

<sup>97</sup> Los Angeles Municipal Code, Chapter 1, Article 2, Sec. 12.02. The code specifies that a home-occupation is one where the home-occupation is a secondary use.

<sup>98</sup> Ibid., Section 12.05(16)a.

<sup>99</sup> Ibid.

<sup>100</sup> Ibid. "There shall be no parking or storing of commercial vehicles on the site or on public streets in connection with the home occupation."

<sup>101</sup> Ibid, Section 12.05(21)b.

(Table 4). Different classes of businesses have different rates of taxation (Table 5). Suppose we have three different businesses: a second-hand clothing store, a daycare center, and a parking lot. All generate annual revenues of \$100,000 per year. The city business tax has widely disparate fiscal impacts depending on the type of business. The daycare center would pay the city about \$118 in taxes while the second-hand clothing store would pay \$147.86, about 25 percent more. The parking lot, however, would pay the city almost \$600, four times more than the daycare center and used clothing store.<sup>102</sup>

Retail Sales	\$110.86 for the first \$75,000 or less of gross receipts; plus \$1.48 per \$1,000 or fractional part thereof in excess of \$75,000.
Wholesale Sales	\$118.25 for the first \$100,000 or less of gross receipts plus \$1.18 per \$1,000 or fractional part thereof in excess of \$100,000.
Childcare Providers	\$23.65 for the first \$20,000 or less of gross receipts plus \$1.18 for each additional \$1,000 or fractional part thereof in excess of \$20,000.
Miscellaneous Services <sup>103</sup>	\$49.67 for the first \$12,000 or less of gross receipts plus \$4.14 per \$1,000 or fractional part thereof in excess of \$12,000.
Professions and Occupations Business <sup>104</sup>	\$106.43 for the first \$18,000 or less of gross receipts plus \$5.91 for each additional \$1,000 or fractional part thereof in excess of \$18,000.
Residential Rental	\$110.86 for the first \$75,000 or less of gross receipts plus \$1.48 per \$1,000 or fractional part thereof in excess of \$75,000.
Commercial Rental	\$110.86 for the first \$75,000 or less of gross receipts plus \$1.48 per \$1,000 or fractional part thereof in excess of \$75,000.
Contractor	\$177.38 for the first \$60,000 or less of gross receipts plus \$1.18 per \$1,000 or fractional part thereof in excess of \$60,000. In-City Contractor pays an additional \$2.96 per \$1,000 or fraction of all salaries and fees paid for services rendered in the City in connection with out-of-city projects.
Commission Merchant or Broker	\$91.64 for the first \$25,000 or less of gross receipts plus 3.67 per \$1,000 or fractional part thereof in excess of \$25,000.
Laundry, Cleaners, Linen Supply, Shoe Rep.	\$110.86 for the first \$75,000 or less of gross receipts plus \$1.48 per \$1,000 or fractional part thereof in excess of \$75,000.
Personal Property Rental	\$177.38 for the first \$60,000 or less of gross receipts.

<sup>102</sup> These inequities are compounded by the fact the parking lot will use more land per dollar earned. Thus, the parking lot will have to pay substantial property taxes in addition to the city taxes on revenues.

<sup>103</sup> Section 21.189.1 of the Business Tax Ordinance covers miscellaneous services which include persons engaged in the business of advertising agency, aircraft support contractor, apparel subcontractor, bookbinder, check cashing service, drapery subcontractor, heat treater, mailing service, metal plaster, music teacher, public relations agency, refuse contractor, shoe shining stand or parlor operator, silk screen apparel subcontractor, temporary help agency, ticket sellers, travel agency, typesetter, or wire terminator.

<sup>104</sup> Section 21.190 of the Business Tax Ordinance covers Professions and Occupations Business which include service activities that are not described as "Miscellaneous Services," as well as all other business activities not specifically taxed by other sections of the Ordinance. Some examples are attorneys, dentists, barbers, auto mechanics, etc.

Parking Lots	\$177.38 for the first \$30,000 or less of gross receipts plus \$5.91 per \$1,000 or fractional part in excess of \$30,000.
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Source: Los Angeles Municipal Code, Chapter II, Article I.

Table 5: Tax Rates for Selected Businesses in Los Angeles			
	Used Clothes	Daycare	Parking Lot
Annual Revenues	\$100,000	\$100,000	\$100,000
Base Tax (Threshold Income)	\$110.86 (<\$75,001)	\$23.65 (<\$20,001)	\$177.38 (<\$30,001)
Tax Rate Over Threshold	\$1.48/\$1,000	\$1.18/\$1,000 earned	\$5.91/\$,1000
Additional Tax	\$37.00	\$94.40	\$41.70
Total Tax Paid	\$147.86	\$118.05	\$591.08

Source: Los Angeles Municipal Code, Chapter II, Article I.

The effects of the city's tax policy are even more unequal given the focus on gross receipts. A parking lot operation, for example, may have lower-skilled employees. A daycare center, in contrast, often requires a larger number of employees with specific types of skills and training. Thus, a daycare business and parking lot may have substantially different costs and expenses associated with operating their respective businesses, but the city tax rates do not reflect this. Thus, the burden of the tax may be greater for the daycare center because it might have higher costs for rent, labor, and overhead than the parking lot. For example, the city tax represents 2.3 percent of the daycare centers net revenues if revenues minus expenses are \$5,000 (excluding other taxes such as property taxes, entertainment district taxes, etc.).<sup>105</sup> If, on the other hand, the parking lot's net revenues are \$30,000, the city tax represents additional costs of 1.9 percent.

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The effects of the city's tax policy are even more unequal given the focus on gross receipts.

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These businesses also face other forms of taxation, including taxes administered by :

- **State Board of Equalization.** In California, every person planning to sell tangible personal property in California must apply to the State Board of Equalization for a seller's permit. The Board of Equalization administers the California Sales and Use Tax Law, the Use Fuel Tax Law, Hazardous Waste Taxes, the Motor Vehicle Fuel License Tax, the Alcoholic Beverage Tax, and the Cigarette Tax. Businesses are required to pay a deposit to the Board's Office of Equalization before they open their doors. Staff from the Board of Equalization will interview the prospective business owner to determine an estimated amount of the taxes the business will pay. These estimated taxes will be paid upfront and determined solely by the Board of Equalization.
- **California Employment Development Department,** which collects employment related taxes, including unemployment insurance, disability insurance, and personal income tax withholding.

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<sup>105</sup> Profits in this case refer to accounting profits, not economic profits which would also consider the opportunity costs of the business.

- **The Franchise Tax Board**, which administers the franchise tax and net income tax from banks and corporations, and the personal income tax from individuals, proprietorships, and partnerships.
- **The City Clerk's Office**, which handles all taxes and permits required of businesses operating in the City of Los Angeles.<sup>106</sup>

In addition to business taxes, entrepreneurial firms may be liable for other taxes required by the Los Angeles Municipal Code, including the payroll expense tax; the commercial tenant's occupancy tax; the transient occupancy tax; the utility users' tax; the dwelling unit construction tax; the residential development tax; the parking occupancy tax; the sewer service charge; and sanitation equipment charge.

## D. Case Studies<sup>107</sup>

How do these regulations affect individual business owners? Interviews with local small businesses suggest that these regulations impact their operations in a number of different ways.

### 1. *Hardware Store*

After having worked in a local hardware store for over 15 years, a Latino husband and wife teamed up to open their own store. Using savings from their previous employment, they opened their store in 1997. The start-up phase proved problematic. The most significant problem was the lack of coordination among city agencies. They were unable to find anyone within the city that could provide an overview of what the requirements for setting up a new business were. Ultimately, they “discovered” the requirements through a process of permit and application denials from various agencies. Each agency would deny their permit or license until they had obtained X, Y, and Z inspections, permits, or license. Among the permits and licenses they had to obtain were the general business license, a building and zoning permit, a fire permit, a permit for making keys, a health department permit, and a sign permit. They are unsure even today if they have actually acquired all of the inspections, permits, and licenses required by law and are concerned that they may be in violation of the one of the local codes. The nearly complete lack of information in Spanish, their native language, made following the legal requirements to start their business even more difficult.

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Many believe the city favors a few selected businesses, particularly upscale and “dot.com” businesses, while increasing burdens on existing nonfavored businesses.

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<sup>106</sup> These taxes apply to general classifications of businesses. Additional business taxes apply to other types of businesses, including: amusement park, auctioneer, billiards, etc.; bowling alleys, skee-ball, shuffleboard, etc.; coin-operated phonographs machines, coin-operated scales and services machines; Christmas tree sales; circus, side show, carnival, circus parade; collection agency; custom house broker; dance hall; freight forwarding; lending money; lectures, exhibitions and entertainment; miscellaneous trucking; motion picture producer; oil well production; sporting events; storage; steamship agency; theater, motion or live; transporting persons for hire; vending machines/routes.

<sup>107</sup> These case studies are based on interviews conducted by Wade Hudson, Policy Analyst, Reason Public Policy Institute, March 2000. Names of interviewees and businesses are available on request.

They also ran afoul of the city sign regulations. Their location near the Staples Event Center included them in a redevelopment zone that levies a tax on local businesses to help “renovate” the street and regulate façade improvements and signs. The redevelopment committee is requiring a uniform tan color for all buildings and no extending signs. After investing a great deal of time and money designing and placing their sign for the hardware store, it was now “illegal” under the new plans for the street.

This conflict highlights another tension that has emerged in the redevelopment zone. Many business owners in the redevelopment district perceive favoritism on the part of the city. Many believe the city favors a few selected businesses, particularly upscale and “dot.com” businesses, while increasing burdens on existing nonfavored businesses. The thrust of the entire “redevelopment” project appears to be toward making the street more presentable to people driving into downtown on their way to the Staples Center. These people rarely, if ever, patronize the hardware store or other neighborhood businesses that already exist in the area. Thus, the current look of the street, which offers a variety of building designs, colors, and décor, is more consistent with the neighborhood focus of their shops. The city, they believe, is willing to support some high-profile businesses, but not theirs.

The city could do a number of things to support small businesses, the owners of the hardware store said. First, the city could create a single department or agency that could provide “one-stop” permitting and licensing along with all relevant information on zoning, inspections, and taxes. This has already been achieved to some degree (see Section Seven), but improvements could make the system more user-friendly for neighborhood businesses. Second, the city should provide bilingual forms and guides. Third, they believed neighborhood stores should receive more support to fight against the big-box retailers such as Home Depot and others.

While they would like to pay less in taxes and fees, these business owners did not feel they were particularly onerous as long as everyone was paying them. Preferential treatment from the government in terms of taxes, permitting, licensing, and other forms of support was viewed as unfair because the smaller, neighborhood-based businesses did not benefit equally.

## ***2. Beauty Salon***

The owner of this downtown beauty salon emigrated to the United States 21 years ago. She owned a beauty salon in El Salvador but worked for other salons in the United States before buying her own (existing) store more than two years ago. She was licensed by the state after completing a 1,600 hour cosmetology course.

She employed legal and accounting services to help her through the setup process even though the business she purchased already existed. She still needed to negotiate the process for obtaining a business license, to achieve building and zoning compliance, to obtain permits from the fire department, and to obtain a sign permit. She noted that the license and permit renewal process consumed a significant portion of her time. Although her licenses and permits are always renewed, she is required to collect information and fill out forms in addition to paying filing/renewal fees.

The city’s sign ordinance negatively impacts her business as well by limiting the location and size of signs. The ordinance restricts the size and placement of her sign, limiting her ability to advertise. More importantly, her shop does not front a street. Rather than using the side of her building to advertise her business, the wall is filled with graffiti. She was unaware of local redevelopment plans to change the area’s storefronts and appearance and expressed an unwillingness to fund the effort.

In addition, the city has over 50 classifications for business tax purposes, and it is her responsibility to determine which category her business fits into. The renewal fee for her business license is directly linked with her reported annual revenues: as her revenues increase, her renewal fees increase as well.

### *3. Liquor Store*

In another case, a liquor store owner started his business over 15 years ago. He quickly found that he was required to obtain licenses and permits from the federal government, the state government, and a sales tax permit from the city before he could open his business. The city also required him to obtain approval for the proper zoning, building inspectors, the health department, the fire department, and the police department. During the course of collecting the required permits and license, city and agency staff advised him the appropriate alarm systems, aisle width, possible health issues, etc. One of his largest complaints during the start-up phase of his business concerned an apparent lack of overall coordination of the permitting and licensing process at the time. No one helped him through the process.

Moreover, a recent revision to the sign ordinance created a graffiti problem. As part of a redevelopment effort, all signs were removed from buildings. The liquor store is on a corner lot and now has a large blank side wall that is an easy target for graffiti artists. The store owner has to repaint the side wall several days a week to maintain a clean and orderly look.

A second liquor storeowner, like the hardware store, located near the Staples Center, has been open for seven years. Unlike many of the other small business owners, however, his start-up experience was not problematic. He had access to bank loans, accountants, and lawyers to handle permitting, licensing, and set-up costs. Despite retaining legal and accounting services to expedite the process, the liquor-license process took about two and one-half months, much longer than the 45 days indicated by local officials.

In addition to the liquor license, these businesses were required to obtain a general business license, a police department permit, a fire department permit, a license to sell tobacco products, health department permits, and zoning and building permits. The second liquor-store owner was also required to adhere to the redevelopment zone's new sign ordinance.

These store owners had several reform suggestions. Both thought the city and state needed to reduce the application processing time for liquor-store licenses. The second liquor-store owner thought the administration of licenses could be improved in two ways. First, someone was needed to check paperwork at the time it is submitted rather than wait days or weeks if something is wrong with the application. Second, he thought a tracking system similar to the one used by other package delivery services could be implemented by the licensing and permitting agencies; someone should be aware of where applicant's paperwork is and how much longer the process will take.

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Along with many other small business owners, these business owners do not mind paying the fees and taxes as long as they are fair and equitable.

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They also believed the sign ordinance is unduly restrictive. Liquor stores cannot devote more than 30 percent of their window area to "free" advertising, and the new ordinance imposed by the redevelopment agency bars signs from extending from the building's face. The store owners believe that this restriction limits their ability

to promote their stores and products. Ironically, this restriction is one of the primary forces behind the use of neon signs according to the second liquor-store owner. Neon signs are “large” and bright, drawing attention to the store but do not use much window space. Third, the second store owner believed that special tax breaks for small business would be helpful, especially considering how many large firms and businesses receive special favors from the city already.

Along with many other small business owners, these business owners do not mind paying the fees and taxes as long as they are fair and equitable. The second liquor-store owner, however, believed that the redevelopment agency’s plans benefit patrons of the Staples Center at the cost of local small businesses.

For the second store owner, the most serious impact of government regulation was not felt until he recently decided to sell his business. As part of the transition process mandated by the state, all potential buyers are required to open an escrow account for a set period of time while they transfer the appropriate permits and licenses. The transfer process is technically easy; all licenses transfer administratively once the buyer is approved. Often, however, by the time the relevant agencies determine the acceptability of a potential buyer, the escrow account has expired and the entire process needs to start over again. This has happened to the second liquor-store owner twice. In addition, several potential buyers have been turned away because he had one applicant going through the transfer process who was later not approved by the state. Buyers, he suggested, should be allowed to “prequalify” with the state. The escrow account would not have to be set up until after a buyer is prequalified and speed up the time involved in the transfer approval process.

## E. Conclusion

What can be gleaned from the regulatory approach of Los Angeles? Once again, the key questions used for Boston and Dallas are useful in assessing the regulatory barriers faced by start-up entrepreneurs. The Los Angeles case appears to demonstrate the importance of state rules and regulations in creating barriers to new business formation.

1. **Regulations rarely address performance and quality issues.** Local business regulation in Los Angeles appears to be driven mainly by the goal of raising revenues. The city’s municipal code mandates a large number of permits and licenses, and every business is required to obtain a license for tax purposes. But, detailed regulation beyond basic permitting is limited.
2. **Regulations tend to focus on compliance with rules.** This was most clearly evident in the case of state regulation. The state literally dictates the content of the curriculum in schools to qualify for a license, including the number of nail applications. Anyone out of strict compliance with the law is operating illegally and can be shut down, irrespective of the quality of the work performed.

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The Los Angeles case appears to demonstrate the importance of state rules and regulations in creating barriers to new business formation.

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3. **Regulatory approaches are diverse.** The clearest evidence of the diversity of regulatory approaches is, once again, among taxicabs. In the City of Los Angeles, taxicabs are tightly regulated so that only franchisees licensed by the city can provide the service. These regulations are very detailed and locally driven. In the case of building contractors and cosmetologists, regulations

appear to be driven primarily by state law. The Los Angeles Municipal Code provides little regulation for businesses beyond establishing a complicated system of taxation and permitting.

4. **Regulations can significantly complicate business ownership.** Several small business owners complained of the lengthy delays and unnecessary complications they experienced in obtaining permits. Indeed, Los Angeles requires a large variety of permits and inspections. The city, for example, requires permits for installing burglar alarms. The city also requires inspections of premises by the police and fire departments. Opening a new business could easily involve obtaining permits and coordinating inspections with a half-dozen or more city agencies and departments. Coordinating these permits, as well as complying with local zoning codes for home-based businesses, would be difficult. Notably, two of the four businesses profiled used consulting and professional services to shepherd them through the permitting and licensing process.
5. **Regulations favor existing businesses.** The degree the local regulatory climate favors existing businesses is difficult to determine. The financial burdens appear to be small, but the bureaucratic hurdles are significant. Local business owners reported substantial delays in processing permits and a lack of coordination among agencies (although this deficiency appears to have been addressed by the city, see Part Seven). In the case of taxicabs, substantial unmet demand has fueled an illegal taxicab market that may be larger than the legally licensed taxicab fleet.

## Part 6

# Atlanta Legacy

The Metro Atlanta economy has been the driving force in the Southeast, not to mention one of the fastest growing areas in the United States based on population and job growth. In the last decade, its population, employment and per capita personal income grew by more than one-third.<sup>108</sup> The region's population has increased at an average annual rate of 2.9 percent since 1950 with 54 percent of its postwar population growth occurring since 1980. Between 1980 and 1999, Metro Atlanta's population grew by 64 percent.

Moreover, Atlanta has led the nation in net migration since 1985, averaging 100,000 new residents since 1990. Not surprisingly, Metro Atlanta is now the 11<sup>th</sup> most populated urban area in the United States, with over 3.2 million people. By 2025, the region's population is projected to be 4.8 million, an increase of 2.1 million people since 1990. The forecast rate of population growth between 1990 and 2025 for the region (81.4 percent) is double the national average (48.2 percent).<sup>109</sup>

This population boom is no surprise given the fact that the region's job base has more than doubled between 1980 and 1999. Moreover, the region's job base remains diverse, with no sector accounting for more than 30 percent of the region's employment. The Atlanta region has led the nation in job creation since 1990 and is projected to maintain this position through the year 2000. This employment growth is expected to continue through the first quarter of this century. In fact, employment is forecast to increase by 92.7 percent compared to projected increases for the state and nation of 51.8 percent and 35.5 percent respectively.

The City of Atlanta has also reaped the rewards of a strong regional economy and ever-increasing arrival of newcomers. The average annual household income for both groups has increased by more than \$26,000 since 1990. According to U.S. Census Bureau projections, the proportion of Atlanta families earning more than \$75,000 a year will grow to more than 30 percent in the next few years.<sup>110</sup>

These data, however, are general. While the Metro Atlanta region has grown substantially, encompassing 20 Georgia counties according to the U.S. Bureau of the Census, the City of Atlanta's population has been stagnant at around 400,000 people. Moreover, the city's share of the regional population has fallen from 19.0 percent in 1980 to just 10.4 percent in 1999, with few indications that this trend will reverse.<sup>111</sup> Thus,

<sup>108</sup> Data from the Atlanta Regional Commission, <http://www.atreg.com> and Metro Atlanta Chamber of Commerce, <http://www.forward-atlanta.com>.

<sup>109</sup> Atlanta Regional Commission, <http://www.atlantaregional.com/download/2000rtp/rtp-sec2.pdf>

<sup>110</sup> J. Hairston, "Redrawing the Map: Atlanta's Next Mayor Will Lead a More Affluent, Integrated and Populous City," *The Atlanta Journal-Constitution*, January 23, 2000, p.G1.

<sup>111</sup> U.S. Bureau of the Census, Population Division, Population Estimates Program, Washington, D.C., October 20, 2000.

economic development and revitalization are important issues for city government. Indeed, Atlanta was selected for empowerment zone funding by the federal government, qualifying it for millions of dollars in federal funds directed at revitalization. Inner-city redevelopment has also become a focus of the recently formed Georgia Regional Transportation Authority (GRTA), which hopes to use investments in transit to stimulate development along Atlanta's heavy rail system. Another factor, however, may limit the City of Atlanta's redevelopment potential: its small business climate.

Small businesses with fewer than 10 employees account for nearly 80 percent of all U.S. companies. In Georgia, 76 percent of businesses employ less than 10 employees,<sup>112</sup> and 12.9 percent of Georgia's work force is self-employed.<sup>113</sup> African-American businesses are even smaller. On average, Atlanta's 289 manufacturing firms employ 25 people, but black-owned firms average five employees.<sup>114</sup> These businesses provide a diverse work force critical to the growth of the state's economy. Between 1992-1996, businesses employing fewer than 20 workers created 55.5 percent of the net new jobs in Georgia, with the restaurants providing the largest source of employment in the state.<sup>115</sup>

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Atlanta has led the nation in net migration since 1985, averaging 100,000 new residents since 1990.

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The Atlanta city council has recognized the role entry-level entrepreneurship can play in the city's economic revitalization plans. In outlining the intent of its regulations for street vendors, for example, the city recognized that street vending might "provide economic development opportunities for small entrepreneurs in the city."<sup>116</sup> Regulatory practice in the City of Atlanta, however, suggests that the small and microenterprise business climate can be improved considerably.

## A. Local Regulatory Climate

Atlanta's Code of Ordinances includes an extraordinary level of detail concerning a wide range of businesses. Every business in the city must be registered, permitted, or licensed, and the general business tax applies to every establishment. The city has a seven-member license review board to examine all applications for permits except work permits and taxicab permits (which are examined by independent review boards).<sup>117</sup> Business registration has often become a venue for even more detailed regulation and micromanagement. Chapter 30 of the Code of Ordinances outlines detailed mandates and restrictions for businesses ranging from hotels, bonding agents, and automobile races to massage parlors, astrologers, and sidewalk photographers.

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<sup>112</sup> Data for 1996 from U.S. Small Business Administration, Office of Advocacy, [http://www.sba.gov/ADVO/stats/us88\\_96.pdf](http://www.sba.gov/ADVO/stats/us88_96.pdf) and [http://www.sba.gov/ADVO/stats/st95\\_96.pdf](http://www.sba.gov/ADVO/stats/st95_96.pdf).

<sup>113</sup> Market Street Services, Inc., [www.marketstreetservices.com](http://www.marketstreetservices.com).

<sup>114</sup> Data from *The Status of Black Atlanta: 1998* (Atlanta: Southern Center for Studies in Public Policy, Clark Atlanta University, November 1998), reported in Tammy Joyner, "Black Manufacturers Vital, Study Says," *Atlanta Journal and Constitution*, November 11, 1998, p. G01.

<sup>115</sup> Georgia Small Business State Profile, 1998, <http://www.sba.gov/advo/stats/profiles/98ga.html>.

<sup>116</sup> Atlanta Code of Ordinances, Part II, Chapter 30, Article XXIII, Division I, Section 30-1402.

<sup>117</sup> Atlanta Code of Ordinances, Chapter 30, Article II, Section 30-26.

The Appendix to the code lists a strikingly wide array of fees, ranging from \$6,000 for a taxicab Certificate of Need to \$25 for a private security company (Table 6).

Business Activity	Section	Fee
Taxicab CNC	162-33	\$6,000
Wine manufacturer	10-60	\$1,500
Tasting room for wine retailer		\$1,500
Tasting room for wine retail dealer and wine to be consumed on premises and who sells wine by the package on Sundays		\$2,500
Bungee jumping	14-190	\$1,000
Lingerie modeling	14-323	\$3,000
Precious metal dealer (fee)	30-28	\$750
Sightseeing company (fee)		\$200
Astrologer	30-503	\$100
Door-to-door sales (permit)	30-615	\$500
Private security/private investigator	30-1246	\$25
Vending on public property (permit, merchandise, food)	30-1431	\$150
Vending on private property (permit, merchandise, food)	30-1486	\$75
Closeout sale (per 30-day sale)	58-85	\$100

Source: Atlanta Code of Ordinances, Appendix B.

Often, these fees combine to increase the financial burden of microenterprises. For example, a door-to-door salesman must pay a \$100 application fee to obtain a permit.<sup>118</sup> Once the application is processed, the company must pay \$500 for a permit to operate in the city. Similarly, a door-to-door employee must pay a \$50 application fee and a \$170 annual license fee for a permit. Thus, a single person door-to-door sales company would have to pay the City of Atlanta \$820 before he could operate. On the other hand, a private security service would pay the city \$25 plus \$5.00 per employee to register the company.<sup>119</sup> Then, the company would pay the city a \$25 plus \$5.00 per employee application fee.<sup>120</sup>

In addition, an occupation tax is levied on each business, trade, and profession in the city (or carried out within the city).<sup>121</sup> The tax includes a nonrefundable administrative fee of \$75, a \$50 base for gross receipts of less than \$10,000 per year, a tax rate varying from 0.60 percent to 2.15 percent on gross receipts over \$10,000, depending on the tax class of the business. The city has categorized businesses into eight different tax classes.<sup>122</sup> The tax is in addition to the city’s \$75.00 registration fee.

The occupations regulated and taxed by the City of Atlanta are too numerous to discuss in detail. The license review board holds a public meeting on each permit application where it considers a staff recommendation on whether to approve the permit (or license). The board can use a range of criteria to determine whether the

<sup>118</sup> Atlanta Code of Ordinances, Section 30-615.

<sup>119</sup> Ibid, Section 30-1246.

<sup>120</sup> Ibid., Section 30-1247.

<sup>121</sup> Ibid., Section 30-52.

<sup>122</sup> Ibid., Section 30.62. Eighteen occupations ranging from lawyers to family therapists have been legally identified in Georgia’s revised code, and they are given the option of paying a flat fee of \$400 per practitioner in place of the occupation tax. Section 30-63.

permit or license should be approved, including criminal background and “any proper criterion or standard.”<sup>123</sup> The following sections outline just a few of these occupations.

### **1. Astrologers and Palm Readers**

Astrologers must hold a valid license to practice in the City of Atlanta.<sup>124</sup> A Board of Astrology Examiners prepares an exam (administered by the Bureau of Personnel Operations) and grades the exams, advising the city on whether to grant an astrology license to an applicant. Astrologers must submit an application to the city’s finance department certifying that they:

1. Are 18 years old or older;
2. Have not been convicted of a crime reasonably related to the practice of astrology (e.g., larceny, embezzlement, “artful practices,” etc.);
3. Are high-school graduates;
4. Subscribe to a Code of Ethics published by the Board of Astrology Examiners; and
5. Passed the written exam administered by the Bureau of Personnel Operations, or have passed the exam given by the American Federation of Astrologers.<sup>125</sup>

A Board of Astrology Examiners prepares an exam (administered by the Bureau of Personnel Operations) and grades the exams, advising the city on whether to grant an astrology license to an applicant.

On a more encouraging note, Atlanta’s home occupation ordinance is sufficiently broad that astrologers could provide their services inside the home as long as 1) less than 500 square feet of living space is devoted to the business, 2) clients do not create more traffic than would “normally be expected,” 3) parking is provided off street for patrons, and 3) the astrologers’ business activities do not create a nuisance for neighbors or nearby property owners.<sup>126</sup> While these restrictions prohibit practicing astrology in many urban environments, including apartment buildings, townhomes, or other high-density residences, they appear to be less restrictive than in other cities.

### **2. Street Vendors**

While the city allows street vending in eight districts with 101 locations, vendors must apply for a permit to vend at each location (Table 7). The police department processes each application and sets a date for assigning vendor locations.<sup>127</sup> Vendors acquire a site in the order in which their permit application was

<sup>123</sup> Ibid, Section 30-29. However, only those criminal activities “reasonably related to the job duties involved in the job for which a permit or license is sought may be taken into consideration or used as cause to deny the application.”

<sup>124</sup> Ibid., Article IV.

<sup>125</sup> The American Federation of Astrologers (AFA) is a membership trade organization consisting of over 3,500 professional and amateur astrologers in 50 states and 56 counties. Founded in 1938, the AFA is located in Tempe, Arizona. The federation certifies astrologers at three different levels: advanced (AMAFA), professional (PMAFA), and teacher. See the AFA web site, <http://www.astrologers.com>.

<sup>126</sup> Atlanta Code of Ordinances, Part III, Part 16, Chapter 29, Section 16-29.

<sup>127</sup> Atlanta Code of Ordinances, Part II, Chapter 30, Article XXIII, Section 30.1429.

received and approved. The city also requires street vendors to use uniform stalls and carts and limits vending to an area three feet wide by seven feet long and eight feet high. Each vendor is allowed to hire only two assistants to work with them in the station at one time, and each must have an assistant vendor’s permit.<sup>128</sup> The city also limits what vendors can sell. The city has four classes of permits: food, merchandise, service, and combination.<sup>129</sup> Within each class, vendors can sell only specific types of items. For example, vendors with a merchandise permit can only sell crafts (e.g., baskets, pottery, jewelry, etc.), fresh flowers, ethnic clothing, “licensed” nonethnic apparel (e.g., caps, t-shirts, and sweatshirts), and accessories. “All other merchandise not listed will be considered unlawful pursuant to this section.” Similarly, services are limited to portrait and face painting, shoe shining, photography, and street music. Thus, books, consumer electronics, music CDs or sheet music, or self-produced garments of a nonethnic variety are not permitted, according to the ordinance.

The city even goes a step further by regulating vending on private property. While vendors need consent from property owners, no one can sell goods and services on private property without a permit from the city.<sup>130</sup> Vendors on private property are restricted in the same ways as vendors on public property—they are required to keep detailed financial records, and conform to Generally Accepted Accounting Practices (GAPP); they cannot have more than two vending assistants, etc. They are, however, allowed to sell a range of products, including seasonal goods, Christmas trees, and firewood.<sup>131</sup> Moreover, the city does not grant vendors on private property an annual license: each vendor must apply for an initial vending permit that expires after 45 days.<sup>132</sup> After the initial 45-day period, the vendor can apply for a renewal that will extend the permit for another 45 days. Each permit renewal is subjected to the same review process as the initial permit. At the end of a calendar year, the vendor has to apply for another new vending permit (and subsequent extensions). Moreover, because of the 45-day renewal requirement, the year-round cost for a vendor on private property is significantly higher than for vendors on public property if the fees were annualized (see Table 7).<sup>133</sup>

Vendor type	Public	Private
Food	\$150	\$250
Merchandise	\$150	\$250
Service	\$50	\$165
Combination	\$250	\$300
Assistant Vendor	\$30 (each)	\$15 (each)

Source: Atlanta Code of Ordinances, Part II, Chapter 30, Article XXIII, Section 30-1429 and Article XXIV, Section 30-1485 and Section 30-1486. Private vending fee annualized by taking initial permit fee and adding seven 45-day renewals.

<sup>128</sup> Ibid., Part II, Chapter 30, Article XXIII, Section 30-1430.

<sup>129</sup> Ibid., Section 30-1427(b).

<sup>130</sup> Ibid., Article XXIV, Section 30-1481. The code states: “No person shall vend any article, merchandise, produce, permissible food item, or service on property in the city without first having obtained an initial vending permit and satisfied all other requirements . . . .”

<sup>131</sup> Ibid., Section 30-1482. Specifically, the ordinance reads: “A merchandise permit shall authorize a person to vend items including but not limited to the following . . . .”

<sup>132</sup> Ibid., Section 30-1485.

<sup>133</sup> Most vendors on private property, however, vend for seasonal or other short time periods. Private property would include sports venues and cultural events. But, this law would also apply to privately owned and operated stores, buildings, and malls.

**Table 8: Atlanta Street Vending Locations**

Vending Districts	No. of Locations
Lindbergh	2
Midtown	6
North Avenue/Civic Center	13
Ponce de Leon/Boulevard	2
Five Points	35
Stadium	16
West End	5
Government Walk	8
Omni	2
Auburn Avenue	4
Ashby Street	4
Vine City	4

Even when they have assigned locations, the city further limits where they can sell their products or services. Vendors, for example, are not permitted to sell items within 15 feet of street intersections or crosswalks, private driveways, adjacent buildings, or building exits (50 feet for hotels and motels).<sup>134</sup> Vendors are also not allowed to set up shop against display windows or buildings, within 600 feet of hospitals, colleges, universities, residential areas, or schools; or within 500 feet of a public housing project (unless authorized by the housing authority).

A 15-member vending review board advises the mayor and city council on industry-related issues. The board's primary mission is to advise on the types of products and services most suitable for vending on public property (including streets), design the vending structure

for each site, and devise operating rules and regulations for vending activities.<sup>135</sup>

The city also implemented comprehensive design standards in 1999. The design standards lay out how vending equipment can be used for keeping drinks cold, displaying merchandise (e.g., clothes), and accommodating patrons for food.<sup>136</sup> These requirements must be incorporated into the site plan and equipment design for the locations. In addition, the design standards require the city to provide weatherization protective coverings for vending carts, coordinate the replacement or repair of vinyl or other cart coverings at minimal cost to vendors, and assist vendors in transporting carts to and from storage.

Street vendors must keep detailed records of all transactions for tax purposes. City ordinances require all businesses to keep financial records using GAAP, and those records must be available for inspection by the department of police or fire department at any time. In fact, the mere filing of an application implies an agreement to produce those records plus the vendor's bank records (for personal and business accounts), personal state and federal income tax statement, and records of sales and receipts of purchases from any business in which a vendor has any interest.

### ***3. Second-hand Stores***

Anyone who wants to sell second-hand goods will find the local code daunting. Some of the most time consuming parts of the code are the reporting requirements for certain goods. Codified in 1977, second-hand goods, as defined by the Atlanta Code, include previously owned watches, clocks, guns, jewelry, precious metals and stones, bicycles and accessories, and related articles.<sup>137</sup> All second-hand goods must be kept in inventory for at least 15 days, and secondhand dealers are prohibited from buying products from anyone younger than 18-years old.<sup>138</sup> Second-hand dealers are required, by ordinance, to keep a written record of the

<sup>134</sup> Ibid., Article XXIII, Section 30-1408.

<sup>135</sup> Ibid., Section 30-1403.

<sup>136</sup> Ibid., Section 30-1409(a).

<sup>137</sup> Ibid., Part II, Chapter 122, Section 122-26.

<sup>138</sup> Ibid., Section 122-33 and Section 122-34.

buyer's name, address, estimated age, estimated weight, estimated height, and date and hour of the purchase.<sup>139</sup> This information must then be reported *daily* to the police.<sup>140</sup> In addition to the products identified as official secondhand goods, the ordinance also requires dealers to provide sales information (name, address, etc.) for typewriters, adding machines, and radios.<sup>141</sup> While similar provisions exist for pawnbrokers and precious metal dealers, second-hand good retailers rarely lend money or provide financial assistance to their customers. In part, this may be a reflection of the city's decisions to concentrate all business licensing in the Department of Police.

#### ***4. Business Regulation as a Tool of Law Enforcement***

The detail of Atlanta's regulations may be explained, in part, by concern over stolen property. Section 122-32 of the Atlanta Code of Ordinances specifically notes that the police can examine all second-hand articles at any time. If the police determine that the property may be stolen, the retailer must hold the item for 15 days to give the police time to investigate.

## **B. State Regulation: Cosmetology and Nail Salons**

Another potentially lucrative business for entry-level entrepreneurs is nail care. These businesses have grown substantially in recent years, often as supplemental services to beauty salons and hairdressers. Statewide, Georgia is home to about 3,000 nail shops and 8,000 licensed manicurists. In 1990, by contrast, the state had fewer than 300 nail salons.

The business is also a strikingly easy one to enter. The education and training necessary to provide the service is relatively low. However, state regulations, rather than local regulations, often create unexpectedly significant financial and administrative burdens. Georgia law, for example, requires pedicurists (foot stylists) to be licensed by the state, and pedicurists must log 400 or more hours of training before they can be licensed. The state has recently stepped up enforcement of its licensing laws, increasing the number of state inspectors and the number of arrests. Employing unlicensed workers, in fact, is the most expensive violation of the state code, carrying a fine of \$500 for each violation. In one three-month period, state inspectors checked 248 nail shops, found 183 violations, and issued 87 citations.<sup>142</sup>

Georgia law allows for cosmetologists and manicurists to work as apprentices as an alternative to attending a formal school, but apprentices are generally required to log more hours of training.<sup>143</sup> Cosmetologist apprenticeships, for example, must last 18 months and include at least 3,000 hours. Manicurists must undergo six months and a minimum of 640 hours of training. In fact, according to Georgia law, "Apprentice training shall include the curriculum required for students at the respective levels of cosmetology. The hours and applications required for students will be doubled for apprentices."<sup>144</sup> Thus, even though apprentices are

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<sup>139</sup> Section 122-28.

<sup>140</sup> Section 122-31. The ordinance specifies that the report must be made for all transactions (trade, cash, and otherwise) for the previous 24-hour period ending at 8:00 p.m..

<sup>141</sup> *Ibid.*

<sup>142</sup> Diane Lore, "Healthy Living: Nailing Scofflaws," *Atlanta Journal and Constitution*, May 30, 2000, p. C1

<sup>143</sup> *Rules and Regulations of the State of Georgia*, Section 130-2-.09.

<sup>144</sup> *Ibid.*, 130-2-.09(7).

required to work with teachers with the highest level of Georgia certification, they have more onerous requirements and a higher threshold of training than non-apprentices.

In addition, the teacher must be a certified master cosmetologist or manicurist who holds a current Georgia license. Georgia law then stipulates 17 basic materials that must be provided to the apprentice by the teacher, including a workstation, a textbook and workbook, razor and blades, combs, scissors, tweezers, a blow dryer, and a curling iron. The code lists 16 specific materials that teachers must provide to apprentice manicurists, including a workstation, manicure tray, two emery boards, nail brush, a toe nail clipper, and a cuticle clipper.

Enforcement of the Georgia licensing code emphasizes compliance with regulations over other criteria such as health and safety (Table 9). State code regulates most aspects of a nail salon, including the type of clothing worn while services are provided (e.g., gloves, clinical jackets), disinfection procedures, whether pets are permitted in shops, and where lotions and creams are stored. While many of these regulations may be intended to protect the health and safety of patrons, a review of fines suggests adhering to the code is a more important goal of enforcement. The *Rules and Regulations of the State of Georgia* lists 25 code infractions where fines could be levied for manicurists (as well as cosmetologists and estheticians). The infractions with the highest fines apply to adherence to the code, not unhealthy or unsafe conditions. For example, employing an unlicensed manicurist carries a fine of \$250 while a failure to cleanse and sterilize tools carries a fine of just \$15. Paradoxically, a licensed manicurist who runs an unhealthy or unsanitary shop will receive fines lower than an unlicensed manicurist operating a clean, efficient shop. Indeed, Georgia law requires any unlicensed establishment to be shut down, regardless of the quality of the service provided. Similar micromanagement is evident for schools of cosmetology. Schools can be fined for not storing student records in metal filing cabinets (\$50), not having sufficient chalkboards (\$15), not having enough work stations, failing to keep weekly credit hour sheets current (\$100), failing to keep current progress reports (\$200), or failing to have teachers “devote their entire time to instruction of students” (\$100).

**Table 9: Selected Fines for Georgia State Code Violations for Cosmetologists and Manicurists**

Violation	Fee
Employee not licensed	\$250
Inappropriate shop permit	\$250
Delayed apprentice reports	\$100
No outside entrance to salon (for residence)	\$100
Failure to have shop free from dust, dirt, and debris	\$50 (first violation)
No hot and cold running water	\$15
Unsanitized shampoo bowls and sinks	\$15
Failure to cleanse and sanitize implements	\$15
Clean towels not in clean container	\$20
Stale food and soiled dishes	\$15
Garbage not removed daily	\$25
Inappropriate clothing (e.g., no gloves)	\$50 (first violation)

Source: *Rules and Regulations of the States of Georgia*, Section 130.7.04, <http://www.ganet.org/rules/index.cgi?base=130/7/04>.

The state law allows inspectors to fine and intimidate shop owners through its detailed regulatory requirements and fines. For example, keeping a shop and its equipment free from dust and dirt can be very

subjective. “This is not a question of skill,” counters Cuong Le, the manager of the Nail Studio in Atlanta. “But sometimes it is hard for (workers) to get a license, because they do not know how to speak English. But I have a license, I run this shop and I know the rules on sterilization and cleanliness. So there is no problem. [The inspectors] make it a problem.”<sup>145</sup>

Notably, Georgia’s cosmetology law explicitly recognizes and protects the right of residents to operate a beauty shop from their home.<sup>146</sup> Beauticians and manicurists are also allowed to provide their services in the homes of their clients, nursing homes, hospitals, and other places when the client is ill.<sup>147</sup> This implies, however, that all cosmetology and nail-care services must be provided in a beauty shop when clients are healthy. Thus, in-home services are generally prohibited.

## C. Conclusions

Atlanta’s regulatory climate appears difficult for many businesses as a result of both local regulations and state licensing processes. The city requires all businesses to be registered for tax purposes but also requires numerous other permits before a business can operate legally in the city. The city licenses businesses and employees of some businesses, doubling the paperwork and increasing the fees a business must pay before opening shop. When combined with state-level regulations, opening a business in the City of Atlanta can be a daunting challenge. Once again, the main questions asked in previous sections provide a useful way to identify key characteristics of small business regulation in the Atlanta area.

1. **Regulations rarely address performance and quality issues.** Most of the licensing provisions in the Atlanta code appear to focus on revenue-raising issues or other policy goals. For example, business regulation is explicitly designed to provide information necessary for tax purposes. On the other hand, detailed regulations of street vendors on private property mirror regulations on public property. In the case of second-hand goods, regulation is also designed to meet the investigative needs of the police department. These layers and conflicting goals tend to increase the complexity of the regulatory process at the city level and increase the time and fiscal costs of opening a business.
2. **Regulations tend to focus on compliance.** This is clearly the case at the state level. State regulations licensing small-scale businesses tend to focus on complying with state law rather than health and safety issues. In the nail-care business, a well-run manicurist would be closed down or fined at higher levels than a licensed manicurist running an unhealthy shop. Similarly, several occupations, including astrologers and palm reading require city licenses to practice.
3. **Regulatory approaches are diverse.** Atlanta requires all businesses to be licensed for tax purposes. Among businesses, the city provides varying levels of detail and micromanagement. In addition to regulation of the taxi market, the city provides detailed regulation for street vendors, whether they are on public or private property.
4. **Regulations can significantly complicate business ownership.** Atlanta’s regulatory environment complicates business ownership, particularly for those singled out in the code for special attention. Second-hand dealers, for example, are required to provide detailed paperwork on all transactions.

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<sup>145</sup> Quoted in Lore, “Healthy Living,” p. C1.

<sup>146</sup> Georgia revised code, Section 43-10-18.

<sup>147</sup> *Ibid.*, 43-10-18.3

5. **Regulations favor existing businesses.** In some cases, local regulations clearly favor existing businesses. In the case of street vendors, the city controls the number of locations and then allocates the locations through permit evaluation and licensing. In other cases, such as the state's rules governing cosmetology and nail care, the licensing power is used explicitly and directly to exclude businesses and entrepreneurs.

## Part 7

# Enhancing Economic Opportunity in Cities

**D**espite the regulatory barriers embedded in state codes and local ordinances, many cities have also attempted to foster neighborhood-based entrepreneurship and economic development. This section examines the flip side of regulatory burdens and looks at the policies, programs, and strategies these cities have employed to encourage entrepreneurship and entry-level business creation. In some cases, cities have effectively prevented new occupations from becoming burdened with the costly and outdated regulations that hamper other, older businesses. In other cases, cities have attempted to roll back the regulatory burden.

The Association of Enterprise Opportunity (AEO), a national advocacy organization for microenterprises, and the Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), a division of the Aspen Institute, have tracked the growth of organizations and agencies assisting microenterprises for more than 10 years. Their *1999 Directory of Microenterprise Programs* (<http://www.fieldus.org/directory>) lists more than 340 programs in 46 states. More than 280 of these programs provide direct support to microenterprises by providing loans, technical assistance, or training. On average each program served 202 individuals. Cumulatively, 57,125 people were served by these agencies nationwide. Only 12.1 percent of their clients, however, received loans; most were assisted through training and technical assistance. This shows substantial growth over previous years: in 1996, the directory identified just 200 programs and formal microenterprise lending programs are less than 20 years old.<sup>148</sup> While these programs have helped microenterprises begin, few of them focus on reforming the regulatory climate in which small businesses must form. Indeed, their primary focus is on providing assistance, not policy analysis or policy advocacy.

The following sections assess regulatory reform efforts in the case-study cities.

## A. Regulatory Reform in Boston

The City of Boston has made efforts to improve the regulatory climate for small businesses. Most of these efforts have been incremental and minor, and the city has not engaged in large-scale regulatory reform at the citywide or neighborhood level. Nevertheless, some of these efforts have borne fruit and provide an important perspective on the prospects for reforming local regulatory systems.

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<sup>148</sup> Elaine Edgecomb, Joyce Clark, and Peggy Clark, *The Practice of Microenterprise in the U.S.: Strategies, Costs, and Effectiveness*, Self Employment Learning Project, Aspen Institute, July 1996.

### 1. *Limousines and Jitneys*

Among the more positive developments within the last 15 years has been the growth of so-called “livery transport.” Livery vehicles such as limousines and shuttle vans have emerged as a major new transport sector, particularly as a service provider to the airport. Indeed, the growth of livery vehicles has been so dramatic and pervasive that they are considered a significant competitive threat.<sup>149</sup> Between 1985 and 1995, the number of companies serving Logan International Airport via limousines, vans, or sedans rose from a mere 30 to about 700. The total number of livery vehicles licensed in Massachusetts has reached almost 8,000, serving Boston as well as the entire eastern region of Massachusetts and southern New Hampshire. Major private investors are primarily responsible for the growth of this new transportation sector. U.S. Shuttle service, for instance, is owned by Fidelity, a prominent mutual fund investment firm based in Boston.

Liveries are licensed by the state government and require minimal fees; the cost of a special "livery" license plate is but \$80 for two years. More importantly, livery vehicles and companies are not bound by a medallion system that artificially limits their supply. Livery services have emerged legally because they do not, technically, compete with taxis. Rather than provide immediate on-demand services, liveries offer point-to-point transport based on pre-arranged appointment.

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Legal jitneys could run specific street routes in poor neighborhoods, offering a flexible and potentially more efficient alternative to traditional public bus service.

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The livery transport industry’s success points to a way smaller, neighborhood-based entrepreneurs can take advantage of state law to serve the long-underserved neighborhood transportation market in Boston’s outer residential neighborhoods. James Mahony, a resident of the Boston’s blue-collar Roslindale neighborhood, initially faced a police crackdown when he began what was considered an "illegal" car service in the city’s southwest neighborhoods (even though he had a livery plate on the vehicle). The Massachusetts courts, however, did not prosecute Mahony. He is now one of several such livery services providing service in residential areas, including the West Roxbury, Hyde Park, and Jamaica Plain residential areas. These neighborhoods are far from the city’s downtown and airport, as the previous section pointed out, and are historically underserved by taxis. Jeff Cambria, owner of Jeff’s Taxi, serves these areas both with a 15-passenger van and a single station wagon.

A similar development could occur through the state licensing law for "jitneys," vehicles that serve specific, fixed routes. Historically, jitneys were private small bus services that served city neighborhoods. One of the more famous examples may be Atlantic City, but thousands of illegal jitneys operate in large cities such as New York City, Houston, and Pittsburgh. Jitney licenses in Boston are used primarily for tour services. However, just as the livery license has become a mechanism for allowing competitive, neighborhood transportation point-to-point services to develop, legal jitneys could run specific street routes in poor neighborhoods, offering a flexible and potentially more efficient alternative to traditional public bus service.

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<sup>149</sup> Thomas C. Palmer, Jr., "Taxi Turmoil; Limousines' Increase Worries Cabbies," *Boston Globe*, January 17, 1995, Metro/Region, p. 1.

### Taxi Medallion Auctions

The high price of a taxi medallion in the two 1999 Boston auctions is a formidable barrier to self-employed taxicab operators in Boston. “Nobody can afford this kind of price,” said Ansar Qureshi, a disappointed bidder at one of the auctions.<sup>1</sup> In some circumstances, however, the auction process may be a positive albeit incremental development toward a freer, more competitive market.

Historically, state or city governments have arbitrarily set the numbers of taxi medallions. Licenses often carry a nominal fee officially and sell for exorbitant prices in a secondary, often illegal, informal market. From 1934 until 1992, for example, Boston did not issue any new medallions while medallions sold privately for more than \$100,000 each. The city shifted gears in the mid-1990s. First, the city has acknowledged the artificial scarcity of taxis created by the medallion system by increasing the supply of medallions. More importantly, perhaps, the city now uses a market mechanism to determine the value of the medallion, providing important information to prospective taxi owners and investors about the costs of operating in a highly regulated system.

Boston’s auction works like this: the city announces a minimum bid price such as \$95,000. Then, prospective owners bid for the medallion. In the most recent auction (June 2000), successful bids ranged from \$175,000 to \$185,000.<sup>2</sup> Some bidders were disappointed, but others who were prepared to pay more were successful. The auction system is an important source of information about the supply side of the local taxi industry. If demand for the medallions outstrips supply, the price will be bid up to levels significantly higher than would exist in a competitive market. The difference between the price paid by the successful bidder and the competitive market price represents the monopoly profits earned by existing taxicab license holders as a result of the artificial constraints erected by the city. Should the city, for instance, offer another round of medallions for sale—and Boston is planning at least two more auctions—the medallion price may fall significantly as supply comes more in line with anticipated demand for taxi services. If prices continue to increase, the market is signaling that the supply of taxis is still severely constrained in the city. Thus, the auction becomes a way for local officials to quantify the burdens of the medallion policy on local taxicab owners. Of course, from the entry-level entrepreneur’s perspective, this becomes a significant financial burden because the medallion price becomes another cost of doing business, significantly raising the break-even threshold. Arguably, cities should not adopt a medallion system to keep barriers to entry as low as possible, particularly for low-income entrepreneurs.

#### Notes:

<sup>1</sup> Laura Brown, “Hub Cab Fare: \$171,000; Medallions Fetch Premium Prices at Second Auction,” *Boston Herald*, September 18, 1999, p. 3.

<sup>2</sup> This represents about a 7 percent increase over the successful bids in a June 1999 auction, which ranged from \$165,000 to \$171,000.

## *2. One-stop Capital Shop*

Despite the fact that the City of Boston is not engaged in a citywide regulatory reform, it has made efforts to guide prospective entrepreneurs through its labyrinth of licensing and occupation-related requirements. This effort is more along the lines of “reinvention” than deregulation. The Boston Inspectional Service Department, the city agency that enforces license and permit laws, and the Boston Empowerment Center, the agency that serves the federally designated “empowerment zone,” stage workshops that attempt to help prospective entrepreneurs and business owners negotiate the city’s legal requirements, licensing, permits, or rezonings. These efforts also direct prospective business operators to city and state agencies that regulate their respective activities.

This approach has a number of limitations from a regulatory perspective. For instance, the Boston Empowerment Center’s so-called “One Stop Capital Shop” does not serve as a single stop at which aspiring entrepreneurs can both learn about legal requirements impacting their businesses or obtain the necessary licenses and permits. Rather, the center refers entrepreneurs to potential funders and investors for the project. This referral capacity is seen by many agency staff as an end in itself.

Nonetheless, the effort to expedite a burdensome regulatory process is a small step in the right direction. Over time, this effort might point out the difficulties posed by licensing or even create a constituency for reform. Indeed, a survey of nonprofit agencies that operate programs to encourage small business development by the Boston-based Pioneer Institute discovered most community assistance agencies were aware of the problem posed by licensing and permitting regulations.<sup>150</sup> A referral, for instance, to the heart of the city’s licensing bureaucracy—its Inspectional Services Department—leads only to a series of lines on various floors of Boston City Hall. There is, in reality, no centralized license and permit operation. A “higher order” type of regulation (e.g., a zoning change) requires an even more involved and time-consuming process, usually involving a lawyer.

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The high bar posed by such legal requirements is implicit in the city’s unwittingly revealing advice to prospective entrepreneurs: begin the process of business incorporation by visiting the Inspectional Services Department. The idea of ranking a visit to such an agency ahead of a visit to a bank for financing demonstrates how central bureaucratic barriers can be.

“We assist businesses as they move through the process but this does not change the process itself,” acknowledges the Allston-Brighton Community Development Corporation.<sup>151</sup> Many assume, however, that the regulations are immutable. “The city just needs to continue to support and foster more community-based collaborations,” says the Asian Community Development Corporation.<sup>152</sup> Many community development

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<sup>150</sup> Survey of community development corporations (CDCs) operating in the City of Boston conducted by the Pioneer Institute for Public Policy Research, November 1999. Six of the 19 CDCs queried returned surveys.

<sup>151</sup> Ibid.

<sup>152</sup> Ibid.

corporations apparently believe, based on survey responses, that the Boston Empowerment Zone would serve as an advocate for systematic change; it has not taken this task as part of its portfolio. Some survey respondents, however, recognize the limited effort city government has made to improve licensing efficiency. The Dorchester Bay Economic Development Corporation, for instance, called for the Boston Empowerment Center to become a functional one-stop shop for obtaining licenses and permits themselves rather than serving only as a referral center.<sup>153</sup> In the same vein, the Roxbury-based nonprofit Nuestra Comunidad, sponsor of the pushcart book vendor Lloyd Hart described below, proposes that licensing and permitting become a Web-based activity.<sup>154</sup>

### *3. Repeal of Personal Property Tax on Small Businesses*

Historically, Boston, like other jurisdictions in the Massachusetts, has taxed personal property (e.g., equipment and machinery owned by businesses). Even very small operations such as shoemakers or barbers are visited by a city assessor to determine the market value of equipment at resale. The property tax is levied on the assessed value of personal property. The tax rate is set at \$37 per thousand in valuation, and the city collects about \$85 million each year from this tax.

The city is currently working on a proposal to repeal this tax for businesses with less than \$10,000 in personal property. The repeal proposal, which requires authorization by the state legislature and governor, is based on the realization that the city likely loses money in the assessment process for small businesses. Thus, the cost of fielding a team of assessors outstrips the tax revenue attributable to small firms, which, on average, ranges from about \$40 to \$60 per year. Moreover, large businesses, particularly utilities, are the biggest revenue generators. Thus, even if small businesses are excluded, the city will retain the bulk of its revenue. The legislation (House Bill 2640), however, has not advanced beyond the Taxation Committee of the Massachusetts House of Representatives.

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### *4. Day-care Operators*

The administration of former Massachusetts Gov. William Weld made a concerted attempt, beginning in 1995, to increase the state's day-care capacity while also providing employment opportunities for women on public assistance. Although the Weld plan was ultimately abandoned, it showed some positive results and could serve as a model from which other jurisdictions might follow.

In January 1995, in a proposal that was described as a way "to attack welfare dependency, ease day-care shortages, promote self-sufficiency, and save taxpayer dollars," the Weld Administration undertook a \$1 million training program designed to help welfare mothers learn how to operate in-home day care centers.<sup>155</sup> The training included practical child-care skills as well as basic business management skills, remedial math, and literacy education. The state promised to help guide potential family day-care providers through the

<sup>153</sup> Ibid.

<sup>154</sup> Ibid.

<sup>155</sup> Jordana Hart, "Massachusetts Day Care Has Few Vacancies," *Boston Globe*, November 3, 1997, p. A4.

licensing and regulatory process. Simply identifying the possibility that the day-care shortage in the state could be addressed through an effort that also reduced welfare dependency was viewed by many as a positive step.

The initiative's results, unfortunately, were modest. In the 13-month life of the program, only 36 former welfare recipients began their own in-home child care—far short of the program's target of 270. However, the concept was popular enough that two Massachusetts cities (Lowell and Springfield) decided to continue the program on their own. Ultimately, 10 providers were licensed in Lowell and 18 in Springfield.

In an assessment of the program, the Massachusetts Department of Transitional Assistance cites several factors for the program falling short of its goals, including:

- the booming economy and the other opportunities it offered;
- the difficulty some operators had in attracting customers; and
- the difficulty potential operators faced obtaining state certification, a process officials concede is onerous.

Unfortunately, the impacts of the onerous licensing process were not sufficient to propel change in state laws.

### ***5. On-street Businesses***

The City of Boston, to its credit, has what in many ways is a well-developed and sensible system for apportioning space to on-street businesses and helping entrepreneurs through the permitting process. The major on-street vendor areas in the city—the Downtown Crossing Marketplace, the Common and Public Garden, and the Haymarket Street produce market—are administered for the city by nonprofit subcontractors: the Downtown Crossing Association, the Boys and Girls Clubs of Boston, and the Haymarket Pushcart Association. In effect, these three groups manage curb and sidewalk space in their areas on behalf of the city, collecting management fees for themselves, almost as if they were operating open-air shopping malls. (The Downtown Crossing Association, for instance, enforces dress code and other appearance requirements.) Management includes helping prospective vendors through the permit process. The city issues more than 100 permits to the Downtown Crossing Association for curb and sidewalk space and, in effect, leases these to vendors.

The current system still faces several challenges. In January 1998, about 40 percent of the more than 100 approved vendor locations in the Downtown Crossing Marketplace were vacant. Location fees charged by the Downtown Crossing Association are substantial, ranging from \$100 to \$1,000 per month. The necessary pushcart requires an additional \$750 payment to a woodworker while food and produce merchants must pay an additional \$200 monthly. Pushcart storage cost is \$4.50 per day. Insurance, offered by the association, costs \$200 annually.

None of this would be a matter for public concern were all potential locations occupied. The city has an interest in providing economic opportunity to citizens; vacant space clearly does not contribute toward that goal. The association, understandably, wants to maintain a high quality of vendor, which protects existing vendors and businesses. Such protection, however, may be more a narrow private interest than in the public interest. If the association cannot rent space at high prices, the city, in reviewing the association's management, should urge it to drop prices, or consider dropping its own licensing fee, which explains part of

the cost. The city should consider, too, helping the association encourage new prospective vendors, perhaps by advertising the opportunity at city hall, schools, and neighborhood-based agencies.

The vacancies at Downtown Crossing are all the more striking because the Boys and Girls Clubs management reports a significant waiting list for the 35 available locations in and around Boston Common. This raises the question of why the city should not authorize more vending locations in the downtown parks managed by the Boys and Girls Clubs. While few people want to turn the Common into a huge, open-air market, the number of vendors could be significantly increased, perhaps doubled, without an adverse effect on public order and cleanliness.

The Haymarket Pushcart Association also presents unique problems. The Haymarket open-air produce market, with some 220 merchants, operates mainly on weekends. Two hundred years old, this informal market can be viewed as a remnant of a less affluent 19<sup>th</sup>- and early 20<sup>th</sup>-century city. Nonetheless, the market remains quite viable today, offering bargain prices in a crowded office and tourist area as well as nearby residential areas (e.g., the North End).<sup>156</sup>

Still, the continued existence of the Haymarket is encouraging. Haymarket merchants have apparently identified a market niche which could be pursued by entrepreneurs in other cities. The Haymarket vendors sell produce purchased at the city's wholesale food market which is close to spoiling, then resell it at deep discounts compared to supermarkets. Absent a venue, such food might go to waste. Instead, in Haymarket, it becomes the basis of jobs and source of inexpensive nutrition. Unfortunately, similar venues are not available in the city's residential neighborhoods where the lone pushcart vendor or sausage sellers are rarely licensed.

## ***6. Farmers' Markets***

The 1990s also witnessed an explosion of so-called farmers' markets in Boston and eastern Massachusetts. The markets have become the best source for the best blueberries, tomatoes, and apples found in the city. Their growth to more than 100 in Massachusetts is the result of a combined effort by the state's Department of Food and Agriculture, and the nonprofit Federation of Massachusetts Farmers' Markets. The key to the success of the farmers' markets, however, has been the willingness of the City of Boston and surrounding communities to provide sites at which farmers can set up shop for the day.

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<sup>156</sup> Nonetheless, in contrast to the Downtown Crossing Association and the Boys and Girls Clubs—which provide published application forms and a guide for prospective merchants—the Haymarket Pushcart Association is not even listed in the phone book. The process of joining, and thereby qualifying to operate in the Haymarket area, is by no means transparent. Officials of the Pushcart Association report that Haymarket “medallions,” in contrast to city vendors' licenses, cannot be sold on the open market but only transferred and are, as a practical matter, transferred from father to son or son-in-law. There is charm to such an arrangement, but this limit has contributed to the decline of the Haymarket area as a vending area as the number of vending licenses has fallen from 500 in the 1950s to 220 in 1999. The right to operate in this prime, downtown location—with proximity to commuters, downtown residents, and tourists alike—should arguably be offered to the public at large.

Notably, the federation has expressed a strong interest in expanding the size of farmers' markets and the range of goods sold. Already, there are many markets in which baked goods and handicrafts, even clam chowder, have found their way among the produce. The federation envisions formal inclusion of this greater product diversity. The federation's market manager, Meg Taylor, hopes that an impending expansion of an existing market at Boston's City Hall Plaza will serve as a pilot project in which there would be sales of "eggs, meat, and dairy. And there are so many opportunities for other products."<sup>157</sup> She is proposing a sliding fee scale such that small entrepreneurs could more easily get started. The state's Department of Food and Agriculture has also expressed support for expanding the range of farmers' market vendors. To date, the wholesome image of the farmers' markets has likely protected those selling non-produce items. Expansion will likely require a formal codification of what sort of goods can be permitted, codification that does not exclude goods which consumers are willing to buy, even if they are not pre-packaged.

### *7. Street Vendors at Boston Transportation Hubs*

Over the past three years, the Massachusetts Bay Transportation Authority has, through a private real-estate leasing firm, leased locations for small stores and pushcarts to operate at both major subway stations and large bus stops throughout the Boston area. The so-called MBTA Marketplace pushcart program has emerged as a creatively structured method to bring entrepreneurial street life to many parts of the city. Working through neighborhood groups which obtain pushcart licenses and then make the pushcarts available to entrepreneurs for a monthly rental charge, the privately owned Transit Realty has initiated a program to charge different fees for different locations. Thus, even within one major bus stop area, a pushcart location closer to the buses might cost more than another farther away. This initiative has already led to some important success stories. Lloyd Hart, a former drug addict and small-time thief, rents his pushcart for \$200 a month at the Dudley Station area in the predominantly African-American Roxbury district.<sup>158</sup> He has established a thriving business as a bookseller, complete with his own Web site. In total, the MBTA program has led to 45 pushcarts in subway and bus stations and another 11 at stations in the region's commuter rail stations; permits can be purchased for as short a period as 30 days (allowing for seasonal business) and average between \$300 to \$500 a month.<sup>159</sup> The firm which operates the program says convincingly: "We are consistently open to applications from new vendors."<sup>160</sup>

The transit authority also authorizes street musicians to play on its property and seek donations from the public or sell their own recordings. A Musical Performance Permit requires only a basic, one-page application form, for which there is no fee.

### *8. State-level Deregulation*

As with the regulation of in-home child care, an abortive effort to encourage entrepreneurship at the state level was initiated in the mid-1990s. The Weld administration, in September 1995, introduced a proposal that

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<sup>157</sup> Interview with Meg Taylor, Federation of Massachusetts' Farmers Markets, by David J. Bobb, Pioneer Institute, November 1999.

<sup>158</sup> Ric Kahn, "A Simple Plot," *Boston Globe*, November 14, 1999.

<sup>159</sup> The MBTA hired CBL to run the Pushcart Program. Statistics about the program, and comment, are taken from a telephone interview with Mark Hammond, Administrator, Pushcart Program, CBL, by David J. Bobb, Pioneer Institute, November 1999.

<sup>160</sup> Interview with Nana Gogo, owner of Nana's Full Service Salon LTD, by David J. Bobb, Pioneer Institute, September 1999.

would have granted relief to African-style hairbraiders by abolishing the state Board of Registration of Cosmetology. The proposal did not focus exclusively on hair-braiders, but was part of a larger attempt to abolish 12 boards of professional registration. Predictably, it sparked protests from members of all affected professions without any countervailing comment from the general public. The proposal was defeated. It would have been far more effective simply to recognize that hairbraiding is distinct from traditional haircutting and hairstyling and, therefore, exempt from the Board of Cosmetology's licensing requirements. As with potential in-home food preparation, this does not mean that the state and its municipalities would forfeit the right to protect the public health. The premises of hair-braiders can and should be subject to sanitation-related inspection.

Nevertheless, the development and expansion of hair-braiding salons, notwithstanding onerous regulation, has been significant. In Boston, one African immigrant (from the Ivory Coast) has gone from running an in-home and sidewalk hair-braiding business to ownership/operation of a salon which now employs 10 hair-braiders. The owner has gone to the trouble of complying with state cosmetology regulations she considers almost entirely irrelevant. "I was teaching them how to braid," she says of those who were running the training program in which she had to participate. Those parts of cosmetology training which may be relevant (e.g., sanitation), says this businesswoman, should require little more than a short course of at most 80 hours.

### ***9. Business Assistance Programs***

In Summer 2000, the Boston-based Pioneer Institute for Public Policy Research launched its Center for Entrepreneurship. Among the center's first projects was the publication of a directory of microenterprise assistance organizations in Massachusetts. The survey identified more than 50 organizations with programs designed to assist small businesses and new business start ups.<sup>161</sup> Twenty-four of these organizations were based in Boston. The vast majority of the organizations were private, nonprofit organizations (Figure 3). About 40 percent reported receiving federal funding, and 49 percent of their budgets came from federal, state, and local government sources. Fifteen organizations (29.4 percent) reported receiving their primary support from private sources, either foundation grants, earned income, or other income.

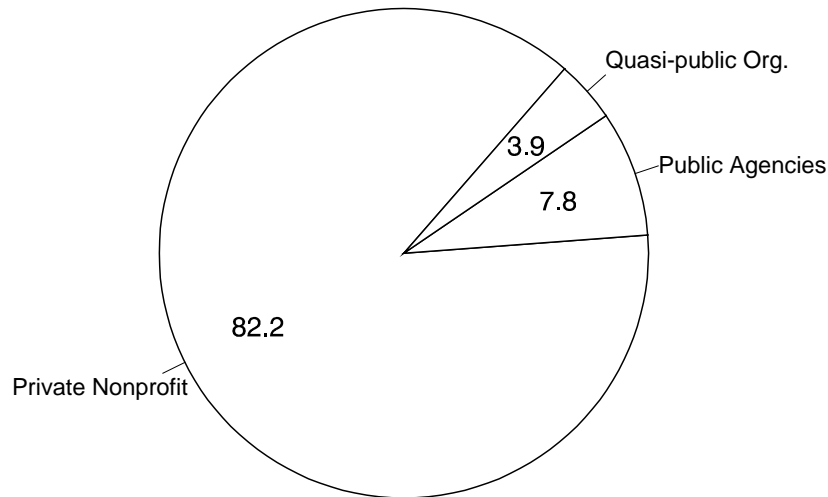
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**Figure 3: Organizational Type of Microenterprise Assistance Organizations in Massachusetts**

<sup>161</sup> Center for Entrepreneurship, *Directory of Microenterprise Organizations in Massachusetts* (Boston, Massachusetts: Pioneer Institute for Public Policy Research, 2000), <http://www.pionerrinstitute.org/>



Source: Center for Entrepreneurship, *Directory of Microenterprise Organizations in Massachusetts* (Boston, Massachusetts: Pioneer Institute for Public Policy Research, 2000), <http://www.pioneerinstitute.org/entre>.

The organizations range from the targeted and highly focused to general and broad-based:

- The Community Business Network was founded in 1997 to provide comprehensive business services, including access to financing and networks for entrepreneurs, in low- and moderate-income neighborhoods. The network reports a total income of \$270,000, most from private sources, and makes loans ranging from \$2,000 to \$830,000. All loan recipients received training and technical assistance.
- The Vietnamese American Initiative for Development (Viet-AID) seeks to reduce poverty in the Vietnamese community by promoting neighborhood development, affordable housing, and youth development. Private foundations provide about 55 percent of the organization's \$547,000 budget, and the program provides numerous types of business training and technical assistance to entrepreneurs.
- The New England chapter of the National Foundation for Teaching Entrepreneurship (NFTE) is based in Boston. NFTE teaches low-income youth the basics of starting their own businesses. With a budget of more than \$4 million, almost all NFTE funding comes from private sources.

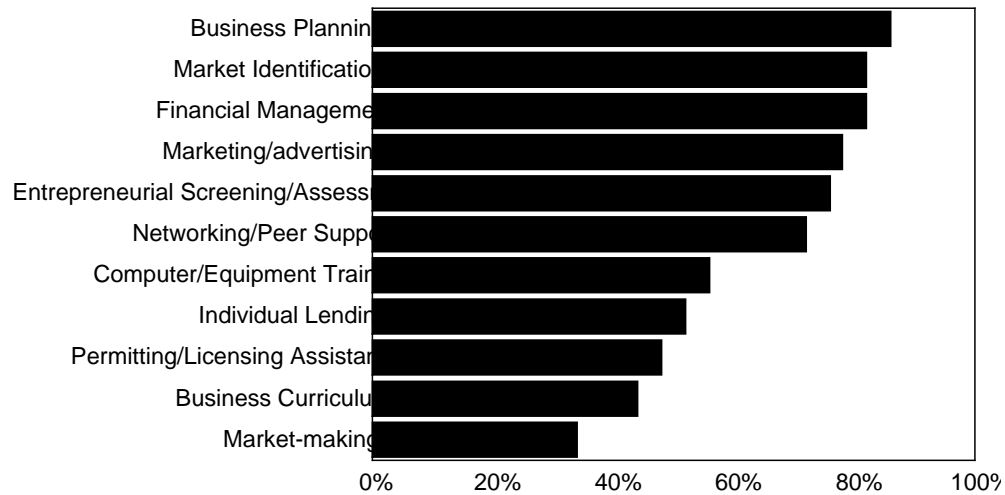
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Most of the microenterprise assistance programs focused on management, marketing, financial assistance, and training.

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Most of the microenterprise assistance programs focused on management, marketing, financial assistance, and training (Figure 4). On average, microenterprise assistance organizations in Massachusetts provided seven separate programs. Only three provided legal services, two of which were located in Boston: the Hale and Dorr Legal Services Center at Harvard University and the Jamaica Plain Neighborhood Development Corporation. Almost half the organizations, however, provided technical assistance in permitting and licensing procedures.

**Figure 4: Most Common Programs Provided to Microenterprises in Massachusetts**



Source: Center for Entrepreneurship, *Directory of Microenterprise Organizations in Massachusetts* (Boston, Massachusetts: Pioneer Institute for Public Policy Research, 2000), <http://www.pioneerinstitute.org/entre>.

Many of these organizations are regional in scope. While some limit lending and assistance to particular neighborhoods or ethnic groups, most provide services to a wide geographical area.

## B. Priming the Entrepreneurial Pump in Dallas

With the notable exception of taxicabs, the regulatory climate in Dallas appears less burdensome than in other cities. Most policies intended to help entrepreneurs focus less on reducing regulatory barriers than on creating financial and labor-saving incentives to attract, retain, and encourage new businesses, including tax abatements, fee rebates, enterprise zones, freeport tax exemptions, foreign trade zones, and expedited permitting. The City of Dallas, in particular, has instituted a “Public/Private Partnership Program” (PPPP) coordinated by Dallas’s economic development department. The stated mission of the program is: “To improve the quality of life for the citizens of Dallas through the encouragement of investment and tax base growth by regulating development, transportation, and creating and retaining jobs in diverse industries, resulting in the creation of an adaptive and resilient economy for the future.”<sup>162</sup>

The partnership program offers a variety of services to facilitate business formation and retention in Dallas. Among these services, three general categories of programs stand out: (1) information, coordination, and advice; (2) public tax and fee abatements, waivers, rebates, and exemptions; and (3) loans and financing.

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With the notable exception of taxicabs, the regulatory climate in Dallas appears less burdensome than in other cities.

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<sup>162</sup> City of Dallas, Economic Development Department Web site, ([http://www.ci.dallas.tx.us/html/economic\\_development.html#PublicPrivatePartnershipProgram](http://www.ci.dallas.tx.us/html/economic_development.html#PublicPrivatePartnershipProgram)). For more complete descriptions of any of the programs mentioned in this section or just for further information, one should consult this site.

## ***1. Arming Entrepreneurs with Information***

To be successful, entrepreneurs need information concerning the array of federal, state, and local regulations they must comply with and an assessment of market prospects, location, financial requirements, and employee needs. Dallas attempts to provide this through both private and public centers that offer advice and help businesses navigate the regulatory maze.

The city's economic development program, for example, coordinates services to facilitate new projects, troubleshoots existing projects, resolves issues during the regulatory process, and intervenes when necessary to promote investment and business investment. These services include a *Development Guide* that addresses as many facets of the development process as possible. The guide includes sections on business development, property development, construction review, special review processes, and development coordination in the City of Dallas, as well as directories for business and property development, fee schedules, and an index to codes, ordinances, resolutions, and manuals.

Dallas also has a "One-Stop Permit Center," created to simplify the construction and development application and review processes, which allows individuals to establish their businesses. Unlike Boston, where the one-stop-shop is essentially a referral service, permits to perform more than 17 types of construction-related work may be obtained at the center, including permits for building, plumbing, demolition, fencing, landscaping, paving (sidewalks and drive approaches), sign, excavation, and installing lawn sprinklers. In addition, the center accepts applications for mandated reviews and permits including: development impact review, residential adjacency review, subdivision of property, certificate of occupancy, zoning change, planned development district, consumer protection licensing (electronic repair, home repair, and motor vehicle repair), food-service permit applications, and waste-water permits.

Dallas also boasts five Business Assistance Centers (BACs) located in three enterprise zones. BACs assist new and small businesses and serve as a community resource for business information and business needs assessment. The BAC's can also provide limited business office space to offset the cost for new startup businesses, thus performing a limited incubator function.

## ***2. Financial Assistance***

In general, two types of fiscal programs exist for entrepreneurs: programs that help businesses avoid certain taxes or fees and programs that fund business starts or expansions. Most of these programs are targeted to encourage small-business formation in historically underserved neighborhoods, including poor or minority areas, or in targeted industries such as high tech, communications, medical, and tourism.

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Qualified businesses are offered a temporary abatement on either real estate or personal property taxes.

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Under the tax-abatement and tax-exemption programs, for example, companies must meet certain criteria, set in local statute, to qualify. Qualified businesses are offered a temporary abatement on either real estate or personal property taxes. Abatements on personal property tax require businesses to remain within the tax-abatement reinvestment zone for twice as long as the abatement period. Thus, if a company seeks a 10-year tax abatement, it must remain in the zone for 20 years or risk retraction of the tax benefits. In addition, Dallas,

on a case-by-case basis, pays some or all of required city infrastructure and a rebate of city regulatory fees for land development. For example, Dallas has three enterprise zones. The enterprise zone in Dallas's "Southern Sector" has programs that make taxes lower than in other parts of the city. Tax-abatement eligibility requirements for these projects are typically lower than in the other parts of the city. For a business to be eligible to be in an enterprise zone, projects must create or retain at least 10 jobs and have a minimum investment of \$1 million.

Once eligible, businesses receive a 90 percent tax abatement for 10 years on the incremental increase in real-estate value. For example, suppose a business had current real-estate assets worth \$10 million and was proposing a \$5 million plant expansion with additional land improvements in the enterprise zone. The abatement would only apply to \$4.5 million facility expansion (inclusive of land and buildings) and would not apply to the \$10 million existing assets. Also, businesses can receive a 50 percent tax abatement for five years on net new business personal property such as new machinery and equipment.<sup>163</sup> Of course, these provisions provide little benefit or relief to entry-level entrepreneurs whose businesses are labor intensive or have relatively small capital requirements. A tax abatement on a new taxicab, for example, would be trivial.

Dallas also offers five financial assistance programs for new or expanding businesses through the Southern Dallas Development Corporation, including:

- **Community Development Business Loan (CDBL)** program provides funds for working capital, equipment purchase, real-estate acquisition, and rehabilitation of existing structures or construction of new buildings. Applicants must be a small or minority-owned business in southern Dallas or in an enterprise zone and with an 18-month track record of successful operations.
- **Southern Dallas Development Fund (SDDF)** provides loan funds for working capital, equipment purchase, loan guaranties for owner-occupied real estate, and refinancing of existing debt. Applicants must be a small or minority-owned business in southern Dallas or in the Enterprise Zone area, have 18 months of successful operating results, and contribute to economic development of the neighborhood.
- **Investment Zone Loans** provide up to \$500,000 to companies located in the Investment Zone that will create over 100 jobs over a four-year period where 50 percent of the new hires are filled by southern Dallas residents.
- **Citywide SBA Micro Loans** provide a minimum of \$5,000 to a maximum of \$25,000 to small businesses funded primarily through the federally funded Small Business Administration.
- **Neighborhood Renaissance Partnership Program** provides grant funds for business facade improvements, infrastructure, and housing rehabilitation. Currently, six neighborhoods have been designated for neighborhood revitalization.

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Dallas has many endemic features and public and private programs that encourage business formation and provide incentives to companies to stay in, expand in, or relocate to the city.

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<sup>163</sup> Under certain conditions, businesses located in or moving to the Central Business District can qualify for a 10-year, 90 percent abatement for real property taxes providing the firm creates as few as 25 jobs or invests \$5.5 million. They may also receive a 100 percent rebate on all fees after their required Certificate of Occupancy is issued. Alternatively, businesses retaining at least 25 jobs can apply for an abatement of up to 50 percent for five years on net new business personal property.

Dallas has many endemic features and public and private programs that encourage business formation and provide incentives to companies to stay in, expand in, or relocate to the city. Most of these programs, however, are not targeted specifically to small start-up businesses or microenterprises. In fact, only one program, the federally financed microloan program, is likely to benefit small, start-up neighborhood businesses. Most of the programs are targeted toward established small businesses, not microenterprises.

### ***3. Regulatory Barriers to Entrepreneurship***

Many of the regulations burdening Texas businesses, though instituted and overseen by the state and local governments, result from federal regulations. As an example, the Texas Natural Resources and Conservation Commission—the state agency with the greatest amount of direct authority and responsibility for Texas's environmental quality—regulates few industries directly, but its rules and regulations impact many indirectly. When Dallas runs afoul of federal clean air standards, the TNRCC, or its delegated regulatory bodies, is required to develop and enforce regulations to bring Dallas back into compliance. These regulations can affect economic growth by limiting road construction, business and residential expansion, and business relocations.

#### **The Southern Dallas Development Corporation**

The Southern Dallas Development Corporation's (SDDC's) mission is to help develop and finance small business, with an emphasis on minority-owned businesses.<sup>1</sup> The goal of SDDC is to create jobs for low-income and moderate-income residents in the city's Southern Sector, a region of Dallas that has struggled to improve its business climate. The SDDC also seeks to stimulate economic development by promoting business investment more generally.

Southern Dallas Development Corporation's Investment Zone Loan program covers 50 percent of Dallas, including segments of East Dallas, West Dallas, and South Dallas and provides loans of up to \$500,000 to qualified businesses. The purpose of this Investment Zone Program is to target businesses currently located or willing to locate in this economically distressed area. Funds can only be used for working capital such as machinery and equipment.

SDDC faces several important problems that threaten the ongoing competitiveness of South Dallas. First, the Southern sector has higher-than-average rates of serious and violent crime. Aging infrastructure and poorly maintained buildings inhibit retail and industrial reinvestment.

Second, developed commercial space available for rent is in short supply. Little speculative property development has occurred within Southern Dallas in recent years. Businesses seeking build-to-suit sites will find several attractive options, but those desiring turnkey office park space, especially those requiring more than 50,000 square feet or more, will find few choices.

Third, highly educated or specialized labor is scarce. Over 40 percent of Southern Dallas residents over the age of 25 do not hold a high-school degree, more than double the percentage for the remainder of the metropolitan area. Finally, although a number of tax incentives are offered to businesses committing

significant capital to Southern Dallas, competing locations such as Alliance offer even more aggressive packages. The lack of a triple freeport or a business-developed foreign-trade zone clearly places the Southern Sector at a cost disadvantage for carrying high value-added inventory.

- <sup>1</sup> The Southern Dallas Development Corporation (SDDC) is a private nonprofit organization, chartered to provide low-fixed rate, low down payment, long-term financing for machinery/equipment and/or real estate purchase in economically disadvantaged, typically minority, areas of Dallas (see box).

Some state offices have state-created regulatory authority over select industries. For example, the Texas Comptroller's office has statutorily assigned regulatory authority over some businesses. While the comptroller's primary duty is to collect taxes and suggest ways to streamline government, within the comptroller's office is the Texas Department of Licensing and Regulation (TDLR). The TDLR is a state regulatory agency that oversees 16 types of businesses, industries, trades, and occupations. The agency is responsible for issuing licenses, conducting inspections, investigating complaints, assessing penalties, setting rules and standards, and holding hearings. Regulated industries include building contractors, personnel employment services, property tax consultants, auctioneers, boxing, and air-conditioning contractors.<sup>164</sup>

Currently, the comptroller's office is working on ways to avoid regulatory redundancy under its E-Texas program. The office, for example, is attempting to establish a one-stop-shop for permits that will be accessible statewide.

## C. Assisting Entrepreneurs in Metro Atlanta

The Atlanta region is home to a host of organizations and services dedicated to assisting small business owners and, in particular, women and minority-owned businesses. These organizations are funded by local universities, the City of Atlanta, metro-area counties, local businesses, and the federal government (e.g., One-stop-capital Shop [OSCS] and the Small Business Development Center). Each organization offers programs specifically targeting small business owner concerns through business development assistance (creating business plans, marketing and product development, contract negotiations, capital raising requirements), various educational programs (seminars, accounting/finance courses, Internet training) and/or small business financing (scholarships, grants, loans). Depending on the organization, programs are conducted on a biweekly, weekly, monthly, or quarterly basis. Among organizations offering financial assistance, average disbursements range from \$100 to \$100,000.

One of the more heralded programs has been the OSCS established in 1996. Created as part of Atlanta's empowerment zone initiative, the program provides technical assistance, training, and access to more than 22 potential funding sources, from Citizens Trust Bank to the Atlanta Development Authority. OSCS provides several conventional forms of business assistance, such as seminars on starting new businesses and providing a staff consultant to help development business plans for potential entrepreneurs. The center also provides access to more than 30 business and self-development instructional videos. The center, however, has also developed nonconventional programs. Blimpie International, the nation's second largest franchiser of sub-

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<sup>164</sup> For more detailed information on the TDLR see <http://www.license.state.tx.us/>.

sandwich shops, waived its \$18,000 franchise fee for up to 10 new stores in Atlanta's empowerment zone and assisted in arranging financing for the remaining \$130,000 in start up capital costs.<sup>165</sup> In its first two years, OSCS issued almost \$6 million in small business loans and claimed to have assisted 22,000 people.<sup>166</sup> Despite the apparent initial success of the program, OSCS has met only 18.8 percent of its expected goal of assisting 850 businesses by 2000.<sup>167</sup> The program claims to have retained or created 370 jobs to date, far short of the projected 1,464.

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In its first two years, OSCS issued almost \$6 million in small business loans and claimed to have assisted 22,000 people.

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A survey was sent to many of these organizations by Atlanta-based Georgia Public Policy Foundation. The survey attempted to gather a variety of data concerning program evaluation, forms of business assistance, criteria for assistance, client data, and issues that may hinder the success of minority-owned small businesses. A complete list of organizations, their descriptions, and contact information are available on-line at <http://www.urbanfutures.org>.

Half the organizations have been in existence for more than 15 years, and most believe their services are well known. The remaining organizations have been in existence fewer than 10 years and believe their services are underutilized. On average, 10 to 20 prospective and current small business owners visit these organizations and agencies on a weekly basis. Together, these organizations have assisted over 4,000 individuals. Depending upon the organization and assistance provided, training may be free or obtained at a minimal fee for course materials and/or application processing fees. A few organizations provide assistance for an hourly rate based upon company revenues.

According to survey respondents, the majority of clients obtain assistance/advice regarding the service industry. Unlike programs in Dallas, assistance is usually not contingent on the years that the business has been successfully operating. The exception appears to be the South DeKalb Business Incubator, which typically requires the company to have been in operation for at least one year. However, each organization requires one or more of the following:

- A minority status (with the exception of the SBDC);
- Good personal credit;
- Working knowledge of the desired industry sector;
- Business creditworthiness;
- Viable business idea;
- Less than 10 employees; and

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<sup>165</sup> "Atlanta's Best Kept Secret," *City Beat Online*, vol. 1, no. 6 (June 1998), <http://www.ci.atlanta.ga.us/Citybeat/jun2798/jun2798.htm>.

<sup>166</sup> "Atlanta's One Stop Capital Shop 'Nation's Model' for Developing Small Business Growth," *City Beat On-line*, vol. 1, no. 39 (February 1999), <http://www.ci.atlanta.ga.us/Citybeat/feb2099/feb2099.htm>. Atlanta was designated an empowerment zone city in 1994.

<sup>167</sup> Atlanta, Georgia Empowerment Zone Annual Report, [http://www5hud.gov/urban/perms/f\\_display\\_ar2.asp](http://www5hud.gov/urban/perms/f_display_ar2.asp).

- Personal resources.

A few organizations also request a complete application, a formal orientation, and a one-on-one meeting with a staff member.

For clients dependent upon demographics concerning a desired business location, the following survey respondents offer statistical reports:

- Atlanta Minority Business Development Center;
- Fulton County Business Incubator; and
- Small Business Development Center.

Among organizations completing the survey, most listed the Metro Atlanta Chamber of Commerce as their primary method for promoting their programs and activities, followed by newspaper, radio, and word-of-mouth. Since small businesses employing fewer than 20 employees make up 90 percent of the businesses in the region, and self-employment in metro Atlanta accounts for 13 percent of the region's jobs, the chamber offers programs specifically targeting small and start-up businesses including:<sup>168</sup>

- A comprehensive menu of benefits;
- Education programs tailored to specific businesses;
- Programs offering access to major purchasing entities in metro Atlanta; and
- Metro-wide networking programs.

Many business owners also reported little encouragement to join/participate in organizations focusing on small business issues, such as the Metro Atlanta Chamber of Commerce or the Atlanta Business League.

Survey respondents indicated that the majority of clients seeking assistance are African-American males. Exceptions to the rule include the Business Neighborhood Organization for Women, GRASP Enterprises, Inc., and the Small Business Development Center. The income levels of clients range from under \$20,000 to more than \$60,000 per year, with an average of \$30,000 per year. Among the surveyed organizations, the percentages of clients seeking financial assistance range from 15 percent to 95 percent. The percent of clients awarded financial assistance ranges from 14 to 95 percent. On average, clients seeking assistance have either never been self-employed or have been self-employed for less than five years. Moreover, these clients employ fewer than five people.

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In sum, setting up new programs to assist entrepreneurs appears to be a more common response to creating an entrepreneur-friendly environment than reforming existing regulations.

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## D. Lessons from Small Business Assistance Programs

<sup>168</sup> T. Joyner, "Today's Topic: Small Business," *The Atlanta Journal-Constitution*, August 31, 1999, p.B2.

The experiences of Boston, Dallas, and Atlanta are instructive for understanding the ways different cities approach assistance for start-up business. Of the three areas, the Atlanta region seemed to have the most well developed network of agencies and organizations addressing the widest array of small business needs. Atlanta organizations also specialized in providing information and forums to educate entrepreneurs on the challenges and hurdles they face in starting up a business. Atlanta, like the other cities in this study, was significantly less successful in addressing regulatory issues associated with small business start-ups.

Dallas, in contrast, has a relatively low level of occupational regulation. Most of the programs are targeted toward financial assistance to existing businesses. While many small businesses, particularly capital intensive businesses, may benefit from these programs, few very small and service-oriented businesses are likely to benefit.

Boston's regulatory structure is a much more significant impediment to business formation than in Dallas, but the city has not made regulatory reform an important part of its agenda to improve the business climate for small, entry-level, and neighborhood businesses. Experience with deregulation among the farmer's markets and limousines suggests that the city is avoiding past tendencies to overregulate small businesses, but little headway has been made in reforming existing regulations.

In sum, setting up new programs to assist entrepreneurs appears to be a more common response to creating an entrepreneur-friendly environment than reforming existing regulations. In part, this may be a result of the political effort needed to roll back existing regulations in the face of interest groups that benefit from them. In other cases, it may be the low visibility of regulations and relatively low-income occupations that keep regulatory reform from being elevated to the top of the urban agenda.

## Part 8

# Policy Implications and Recommendations

This policy study has used case studies to evaluate the policy climate for entry-level entrepreneurship in four cities: Boston, Dallas, Atlanta, and Los Angeles. The focus of the research was on the regulatory environment local entrepreneurs face as well as the programs and strategies cities have used to encourage or facilitate microenterprises at the city level.

The review of the city regulatory environment centered around three basic observations gleaned from a comprehensive analysis of what may be the most regulated occupation on the city-level: taxicabs. The regulatory environment for other occupations in each city was then assessed using these benchmarks:

1. **Regulations rarely address performance and quality issues.** In almost no case did local ordinances address performance, quality, safety, or public health in a direct way. While ordinances were enacted with the stated purpose of protecting public health and welfare, the specific mandates and requirements had little relationship to performance. Requiring a certain number of hours of instruction in hair care, for example, does not guarantee the quality of the service provided. Moreover, inspectors could cite business owners for infractions of ordinances even though the infractions may have little impact on the quality of the service provided.
2. **Regulations tend to focus on compliance.** In most cases, whether regulations were at the state or local level, regulations focused on achieving set rules and benchmarks. Often, a business that might otherwise easily provide a high-quality product to a satisfied customer is potentially thwarted by the maze of local regulations. At the state level, this was clearly evident in laws regulating nail salons and hairbraiding, where the state mandated detailed, largely irrelevant criteria in order to qualify for a license. On the city level, rules regulating street vending and home occupations were embedded in local zoning codes without reference to positive impacts from the business.
3. **Regulatory approaches are diverse.** Each city tended to focus its regulatory activities on different aspects of the local economy. Dallas, with the exception of taxicabs, appeared to have the least onerous regulatory environment, with little city-level occupational licensure. Most regulations were focused on planning and zoning permitting. The City of Atlanta, on the other hand, was involved in detailed regulation of dozens of occupations. Street vendors, for example, while legal, face a labyrinth of micromanagement from the city, which allocates space on a first-come, first-serve basis.
4. **Regulations can significantly complicate business ownership.** In all cities, regulation tended to greatly complicate business ownership. Often, new businesses had to become experts in subtle legalities regulating their specific business. While every city required a form of registration for new businesses,

cities varied greatly in the requirements for obtaining a registration. Thus, occupations rarely faced the same regulatory environment. In Boston, for example, limousine services have blossomed in a relatively deregulated environment even though they often provide services competitive with taxicabs.

5. **Regulations favor existing businesses.** The very nature of regulation favors existing businesses since, in almost all cases, licensing created an entitlement to legally operating the business. Once a taxicab company received a medallion or Certificate of Convenience and Necessity, the likelihood the license would be revoked was small. Meanwhile, licensing and other requirements created significant obstacles to new entrepreneurs less familiar with the regulatory system.

While local regulatory environments tended to be burdensome for start-up entrepreneurs, particularly those with less education and experience running businesses, numerous agencies and organizations have emerged to assist entrepreneurs. Atlanta provided the most diverse array of assistance agencies among the cities analyzed. Most cities also had agencies and organizations that funded small businesses, but few were targeted toward very small, neighborhood-based businesses. Indeed, the programs in Dallas explicitly excluded the smallest and least experienced enterprises.

None of the cities analyzed through this research were involved in significant, citywide regulatory reform efforts. Boston permitted new businesses to flourish by preventing the spread of existing regulations into new sectors, not rolling back existing regulations. Most cities tended to focus on developing new programs rather than reforming existing systems. All cities had developed a form of a one-stop-shop for permitting, but these also varied in scope and effectiveness. In Boston, the one-stop-shop serves as a referral agency. In Atlanta, the one-stop shop permits new businesses to tap into a range of services, from permitting to financing.

Further, most cities focused their regulatory reform on specific geographic areas. In Dallas, most programs were concentrated in the enterprise zones. In Atlanta, street vending is limited to specific intersections. Similarly, in Boston, farmer's markets and street vending are limited to specific areas designated by the city.

## A. Diversity of Regulation

To develop a better understanding of the diversity of regulatory approaches to individual businesses, the Pioneer Institute for Public Policy Research created an Index of Economic Opportunity. The underlying premise of the index is that regulation of small businesses by state and city governments should seek to protect public health and safety without unduly limiting economic opportunity. Regulations that go beyond reasonable protection of public health and safety, whether administered at the state or city level, may actually compromise these goals. Procedures that are more arduous than necessary act as a disincentive to both compliance and entrepreneurship.

The index was developed by surveying city and state regulations that apply to 15 occupations or business areas, including required licenses and permits, fees, and zoning ordinances. Specific business areas were chosen because they have historically required minimal capital investment and little formal education. These 15 occupations have in the past offered immigrants and others a means out of poverty.

Five questions were asked of each business area to determine whether a significant regulatory burden exists. "Yes" and "No" entries were made for each question in each business area. The calculated index of economic opportunity for 1999 is 44 percent, which represents the ratio of "No" entries (33) to the total number of

entries (75). By the scale devised, a value of 100 percent indicates relatively unfettered economic opportunity, while values at the low end indicate that regulatory barriers are significant and economic opportunity is severely restricted. The 1999 figure of 44 percent suggests that the 15 business areas surveyed have, on average, a medium level of economic opportunity. A comparable percentage figure for each business area can be estimated by multiplying the number of “N” entries by 20 since each category represents one-fifth of the total index. A highly regulated occupation would have few “N” entries (and more “Y” entries) and score lower on the economic opportunity index. For example, street vendors, with no “N” entries, have a level of economic opportunity equivalent to zero on this scale, while flower shop owners, who are subject to fewer regulations, have a level of economic opportunity equal to 80 percent.<sup>169</sup>

Table 10: Index of Economic Opportunity in Boston						
Type of business or occupation	Questions					Economic Opportunity # of "N" entries (%)
	1	2	3	4	5	
Cleaning services	N	N	N	N	N	5 (100)
Sewing/alterations	N	N	N	N	N	5 (100)
Shoe repair	N	N	N	N	N	5 (100)
Small appliance repair	N	N	N	N	N	5 (100)
Flower shops	N	Y <sup>a</sup>	N	N	N	4 (80)
Home improvement contractors	Y	N	N	N	N	4 (80)
Owner-occupied rental property	N	N	Y	N	Y	3 (60)
Small grocery store	N	Y	Y	Y	NA	1 (20)
Catering	N	Y	Y	Y	Y <sup>b</sup>	1 (20)
In-home day care	Y	Y	Y	Y	Y	0 (0)
Take-out restaurant	Y	Y	Y	Y	NA	0 (0)
Taxicabs	Y	Y	Y	Y	NA	0 (0)
In-home food preparation	Y	Y	Y	Y	Y <sup>c</sup>	0 (0)
Beauty shops	Y	Y	Y	Y	Y	0 (0)
Street vendors	Y	Y	Y	Y	Y <sup>d</sup>	0 (0)

Source: David J. Bobb, ed., *Economic Opportunity in Boston: An Index of the Regulatory Climate for Small Entrepreneurs* (Boston, Massachusetts: Pioneer Institute for Public Policy Research, 1999), <http://www.pioneerinstitute.org>.

Note: The survey questions were as follows:

1. Is a license required by the state or city?
2. Is a special permit required by the city?
3. Is the business regulated by two or more agencies?
4. Is the application process burdensome?<sup>170</sup>
5. Is the zoning process for a home-based business burdensome?

<sup>a</sup> Special permits are required by flower shops if they wish to display flowers on the sidewalk in front of their stores.

<sup>169</sup> Given the limited number of questions asked, values calculated for individual business areas must be interpreted carefully. Substantial regulatory issues also exist for specific occupations, such as housing policies to regulate small property owners, and are not accounted for in this survey.

<sup>170</sup> This includes fees and mandated costs.

<sup>b</sup> All catering services in Boston must be based out of a restaurant. Thus, the fifth category was scored as a "Y."

<sup>c</sup> All in-home food preparation for commercial purposes is illegal in Boston. "Y" responses are recorded in each category to indicate that it is illegal to prepare food in one's home to sell from home, at another place of business, or to another business.

<sup>d</sup> Street vendors selling food are not allowed to base their operations out of a home. Instead, they must work from a city-sanctioned restaurant.

The survey and interviews with entrepreneurs and small business owners reveal regulatory costs that limit access to ownership of taxicabs and hair salons, for example, and impede the growth of caterers, among others. When economic freedom is restricted in these areas of the entrepreneurial economy, the impact on urban neighborhoods can be especially adverse, as small businesses are a critical source of job creation in America's cities.

## B. Toward Effective Regulatory Reform

The analysis of regulatory reform and survey of programs and strategies used to encourage entry-level entrepreneurship suggests several avenues for reform.

**First, cities should focus regulatory policy on performance rather than rules.** Often, the rules have little impact on whether a service is provided effectively or satisfactorily. In many cases, most often in taxicab and hairbraiding regulations, the requirements for licensing have little or nothing to do with the service provided.

**Second, cities should work to reduce the complexity of the regulatory and business start-up process.** Many are moving in this direction through one-stop-shops for permitting and licensing. But cities should also consider eliminating entire sections of regulatory codes. Following the precedent of the Indianapolis's regulatory review commission, cities should consider a systemic overhaul of local regulations. City councils could accomplish this through ordinances that repeal all regulations pertaining to occupational licensing and business regulation by a certain date unless council, on advice from its regulatory review commission, reauthorizes the provision.

**Third, cities should avoid extending existing regulatory rules to new occupations and businesses.** The emergence of limousine and jitney services in Boston and elsewhere has increased choices and improved mobility for hundreds of residents and visitors. This growth would likely not have happened had the regulatory approach to taxis been extended to limousines. Similarly, states should resist the temptation to bring new occupations under existing regulations.

**Fourth, city and state governments should shift the burden of proof onto regulators to demonstrate the effectiveness and usefulness of rules and licensing requirements.** Often, rules and regulations are proposed and adopted without due consideration to their unintended side effects. For example, cities are increasingly adopting rules that virtually eliminate part-time drivers and niche companies. Proponents of these rules should demonstrate that the proposals will, in fact, lead to the desired policy goal while fully accounting for costs and unintended side effects. Similarly, city governments should adopt the position that regulations should be transparent: the intended outcome should be directly tied to the regulation proposed.

**Fifth, city and state governments should continue their efforts to streamline business permitting.** The increasing accessibility of the Worldwide Web and Internet can significantly reduce the time and labor costs

involved with obtaining permits and fees. Businesses, in principle, could apply for permits on-line. City staff could be assigned as caseworkers to each application received in a queue. Caseworkers would be responsible for managing the application with the goal of permitting the business as quickly as possible. Similarly, licensing tests could be administered on-line, providing 24 hour, seven day per week access by prospective applicants.

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## Other Relevant RPPI Studies

*Regulatory Reform at the Local Level: Regulating for Competition, Opportunity, and Prosperity.* By Adrian T. Moore and Tom Rose. Policy Study No. 238.

*Market-Oriented Planning: Principles and Tools.* By Samuel Staley and Lynn Scarlett. Policy Study 236.

*Repairing the Ladder: Toward a New Housing Paradigm.* By Howard Husock. Policy Study 207.

*Community Law Enforcement: The Success of San Diego's Volunteer Policing Program.* By Kathy Kessler and Julie Wartel. Policy Study 204.

## Resources

**T**he **Urban Futures Program** has established an economic opportunity homepage on its Web site to assist researchers, policy analysts, and policymakers in regulatory reform to promote entrepreneurship and microenterprise development. Readers are encouraged to visit <http://www.urbanfutures.org> for additional resources, insights, and recommendations on regulatory reform.

**Association of Enterprise Opportunity.** AEO is the only national member-based association in the microenterprise development industry. Its members include a wide range of microenterprise development organizations, community development corporations, small business development centers, community action agencies, women's organizations, community development banks and credit unions, housing and social service programs, advocates, public agencies, funders, and others who share in its mission. Association for Enterprise Opportunity, 1601 North Kent Street, Suite 1101, Arlington, Virginia 22209, Phone: 703-841-7760 , Fax: 703-841-7748 , E-mail: [aeo@assoceo.org](mailto:aeo@assoceo.org) , Web site: [www.microenterpriseworks.org](http://www.microenterpriseworks.org)

- *Development Programs:* <http://www.microenterpriseworks.org/developmentprograms>

- *State Associations*: <http://www.microenterpriseworks.org/stateassoc>

**Aspen Institute FIELD Program.** The microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) is a program of the Aspen Institute. Funds to support FIELD are provided by the Charles Stewart Mott Foundation, the Ford Foundation, the Citigroup Foundation, and the Levi Strauss Foundation. FIELD awards grants to nonprofit organizations providing microenterprise services to low-income clients in the U.S. FIELD's mission is to identify, develop, and disseminate best practices in the field of microenterprise, and to publicize the value of microenterprise as an antipoverty intervention. The Aspen Institute - One Dupont Circle, NW, Suite 700, Washington, DC, 20036, Phone: 202-736-1071 - Fax: 202-467-0790 - E-mail: [fieldweb@aspeninstitute.org](mailto:fieldweb@aspeninstitute.org)

- *1999 Directory of Microenterprise Programs*: <http://www.fieldus.org/directory/index.html>

**Microenterprise Programs in Atlanta:** <http://www.urbanfutures.org>. Reason Public Policy Institute, contact: Sam Staley, Tel. 310-391-2245. Also see Georgia Public Policy Foundation by contacting Kelly McCutchen, at 404-256-4050.

**National Foundation for Teaching Entrepreneurship (NFTE).** The National Foundation for Teaching Entrepreneurship's mission is to positively impact the lives of low-income youth by strengthening academic skills and teaching the basics of how to start a small business. NFTE achieves its goals by creating curriculum, training teachers, and providing alumni services. Founded in 1987, NFTE is currently based in New York City with chapters and offices in Massachusetts, Pittsburgh, San Francisco, Sacramento, Washington, D.C., and partner programs in Chicago, Kansas, Minneapolis/St. Paul, Argentina, Belgium, and the United Kingdom. NFTE is an international nonprofit organization that introduces low-income and at-risk young people to the world of business and entrepreneurship by teaching them how to develop and operate their own legitimate small businesses. NFTE National Headquarters, 120 Wall Street, 29<sup>th</sup> Floor, New York, NY 10005, phone 212-232-3333, fax 212-232-2244, toll free 800-367-6383. Web site: <http://www.nfte.com>

**The Institute for Entrepreneurship.** The Institute for Entrepreneurship, based in New York City, provides excellence to entrepreneurs of all ages through education, innovation, and access to capital. The Institute strives to inspire and nurture entrepreneurial talent worldwide. The Institute's goal is to create a community for entrepreneurs to grow and become successful, irrespective of where the business is in its life cycle. The Institute administers programs using educational partnerships, support, free mentoring, scholarships, and grants to entrepreneurs. The Institute for Entrepreneurship, 41 State Street, Suite 110M, Albany, NY, 12207, phone 877-275-6943 or 518-443-5606, fax 518-443-5610. Web site: <http://www.nyie.org>

**Institute for Justice.** Founded in 1991, the Institute for Justice is a public interest law firm that pursues cutting-edge litigation in the courts of law and in the court of public opinion on behalf of individuals whose most basic rights are denied by the State. One of the primary issue areas of the Institute is economic liberty—the right to open and operate a business without undue interference from local government. In 1997, the Institute published completed series on barriers to entrepreneurship in seven cities. Institute for Justice, 1717 Pennsylvania Ave., NW, Suite 200, Washington, D.C. 20006, phone 202-955-1300, fax 202-955-1329. Web site: [www.instituteforjustice.org](http://www.instituteforjustice.org)

**Institute for Justice Clinic on Entrepreneurship:** The IJ Clinic is a joint project of the Institute for Justice and The University of Chicago Law School. The IJ Clinic is a free public-interest law firm in which some of the nation's brightest law students, supervised by licensed Illinois attorneys, help entry-level businesspersons

in and around Chicago. Institute for Justice Clinic on Entrepreneurship, The University of Chicago Law School, Arthur Kane Center for Clinical Legal Studies, 6020 South University Avenue, Chicago, IL 60637-2704, phone 773-834-3129, fax 773-834-3130. Web site: <http://clinic.ij.org>

**Microenterprise Programs in Massachusetts:** *2000 Directory of Microenterprise Organizations in Massachusetts* available at <http://www.pioneerinstitute.org/entre/directory.cfm>. Pioneer Institute for Public Policy Research, contact: David J. Bobb, Tel. 617-723-2277

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