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Commentary

OPINION

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Small business manifesto: Let my people grow

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GUEST COLUMNIST

Four hundred business owners who attended last week's statewide small-business conference sponsored by the Washington Policy Center made one thing clear: Businesses are dying every day and the state of Washington is bleeding jobs.

It's not China. It's not Boeing. It's not Microsoft, or outsourcing to India, or the dot-com bubble. The Washington economy's wounds are self-inflicted.

Overzealous regulators have spun a dense and cloying web of rules that are strangling legitimate tax-paying Washington businesses, driving jobs offshore to China and India and driving jobs underground to the unregulated gypsy firms that make up the black market. Over-regulation has crippled the growth of the Washington state economy.

Whether Washington will participate in the U.S. recovery now getting under way, or will be left behind to suffer further job losses, will depend on whether businesses are able to achieve meaningful regulatory reform in the next year.

The agenda of the full-day meeting was to pull together the best thinking on how to stop the hemorrhaging and turn job loss into growth. After a morning gathering information, the business owners broke up into eight small groups to identify specific problems and list constructive state and local policy initiatives for increasing growth. The resulting laundry list of policy ideas, some of which are listed below, makes a good draft for a growth manifesto that would well serve both the state of Washington and the country as a whole. The business owners' message was clear. "Give us the tools and infrastructure we need to run our businesses and get out of our way. We can do the rest."
The August unemployment rate, at 7.5 percent, was one-quarter higher than the 6 percent national average rate. Jobs fell again in August, with a small increase in service jobs more than offset by a drop in manufacturing jobs. Total jobs created in Washington during the previous 12 months: minus 1,500. With jobs down, so are incomes and tax receipts, so it should not come as a surprise that the state general fund is running a $2 billion deficit.

Macro reasons explain some of the weakness in the state economy.

Of the state's four economic cylinders, only one -- tourism -- is firing. Technology, aerospace and natural resource industries are all going through tough times. Aerospace and natural resource industries are strongly dependent on economic growth, which has been relatively subdued in the current recovery.

Gross domestic product in the second quarter grew at a respectable 3.3 percent annual rate. But look underneath the headlines and you will see that 1.7 percent of the growth was because of rapid increases in defense spending, leaving only 1.6 percent the result of gains in the private sector.
The technology sector and the capital goods sector are waiting for the capital spending growth that economists have been advertising for the past two years. Don't hold your breath. The one big capital spending story on the horizon is delivering high-speed communications to homes and small businesses. All together, telecom companies plan to spend approximately $90 billion rolling out these broadband products over the next decade. Investors can't commit these huge sums, however, until the Federal Communications Commission produces a clear set of rules telling telecom companies how these investments and new services will be regulated. So far these rules have not been forthcoming from the politically dysfunctional FCC.

Without a macro cure for these economic problems, the state is going to have to look internally for an answer. The business owners' ideas can help us do so. Among the ideas they came up with is to undertake a deep review of workers' comp and unemployment insurance programs. Ideas included providing better incentives for unemployed workers to get back to work, reducing benefits to the national average and improving the claims management process.

Two of the business owners provided examples of what is wrong with the system today. One owner pays $9 per hour worked for each of her employees for workers comp, which is forcing her to close her business. A second owner, who pays $5 per hour to workers comp, said she doesn't have money to give her employees raises, so she loses them to unregistered companies working in the black market.

Unemployment regulations, such as minimum wage, ergonomics and youth work rules, were the second biggest deterrent to growth. Also high on the list were health insurance issues, such as capping non-economic damages and malpractice awards and allowing small business group self-insurance.

Workforce training was on everybody's mind. Computer literacy is no longer a luxury good in the world economy. More vocational training and better tax and regulatory incentives to train workers are needed.

Everyone realized that to be competitive today a business must have access to high-speed communications. Broadband to homes and businesses is the key. The exorbitant taxes imposed on telecommunications services should be reduced.

Environmental regulations can be changed to support growth as well. Compensate owners for the economic impact of regulatory changes, and make enforcement more flexible. Reduce the regulatory overlap across departments and agencies.

Other ideas focused on keeping taxes in check and putting limits on construction liability.

The work of the business owners suggests that voters should hold regulators accountable for the impact of their handiwork on economic growth.

As a standard to measure them against let me suggest seven simple principles.

- Make regulatory decisions based on principles, not on which players are involved. Regulation, like justice, should be blind.
- Make the rules, enforce the rules. Rule of Law is vastly superior to Rule of Man.
- Define and protect property rights everywhere.
- Price controls don't work. Don't meddle in people's private business dealings when setting prices.
- Technology moves too fast to regulate. Don't even try.
- Healthy companies in healthy industries spend money on new capital to grow. Sick ones don't.
- When in doubt, deregulate. Less regulation means more growth, something the state of Washington desperately needs.

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