Eliminating Unnecessary and Harmful Regulations



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Introduction

While we as a nation and a state are engaged in one of the largest efforts of pandemic response and economic relief in history, we cannot afford to ignore an important piece of economic and individual recovery—relief from overburdensome governmental regulations, which ought to be an essential policy component of any economic recovery and expansion. Individuals and businesses in the U.S. and many states are inundated with regulations, many of which are arguably unnecessary or ineffective. We must remember that economic freedom includes freedom from government overreach and overregulation. Of course, well-designed regulations are structured to be effective and necessary for their intended purpose such as the health and safety of the public, but in many cases regulations may be ill-conceived, unnecessarily intrusive, and harmful to our individual and economic liberty. Only after an open and deliberative determination of need should government authorize regulations on an otherwise free and open society, and even then, the regulations should be narrowly drafted to address the determined need. In addition, the government should regularly review and repeal regulations that are determined to be ineffective, unnecessary, or harmful to the economic and individual freedoms we all depend on.

Texas is a state that values freedom and liberty. The Texas Constitution, Article I § 1, makes clear that "Texas is a free and independent State." This freedom entails a limited government with low taxes and reasonable levels of regulations.

At their core, regulations should only exist to serve a necessary function of civilized society as determined by legislation and limited by the state and U.S. constitutions, such as protecting the public from physical or economic harm. For example, we regulate the practice of medicine to ensure those willing to practice are adequately trained and capable of delivering quality care. Similarly, those practicing law, engineering, architecture, etc. must demonstrate adequate training and ability to practice in their chosen field for the safety and health of others. But such regulations should be narrowly drawn to achieve their intended purpose and should be frequently reviewed to ensure their existence is still necessary and does not unnecessarily encroach on economic freedoms.

In short, regulations should always be a last resort after careful determination of need and consideration of the effects on individual freedom, on the free market, and on those individuals who choose to freely participate therein.

Key Points

- Texas ranks high in overall economic freedom as a result of low taxes and favorable labor laws, yet has among the highest number of restrictive regulations in the country.
- Texas has made recent efforts to reduce unnecessary regulations, but more can be done.
- The governor has suspended a number of regulations deemed unnecessary or harmful during the pandemic and economic slowdown. Many of these regulations should be eliminated.

It is important to remember that although regulations are, or at least should be, designed to benefit the public, they often result in unintended harm. Any regulations, even those deemed appropriate, can stifle innovation and economic growth. They can prevent or hinder individuals and businesses from entering or expanding their participation and investment in the marketplace. Regulations can also create monopolies or oligopolies where only a few large entrants to the market are able to flourish. This then leads to higher prices, fewer choices, and less innovation for consumers.

Despite Texans' love for liberty, freedom, and independence, Texas actually has among the highest number of restrictive regulations in the country. Many of these are likely not necessary and should be repealed.

The recent and ongoing pandemic of COVID-19 and resulting economic shutdowns have forced some government leaders to call for reviews of regulations, questioning which ones were absolutely essential and, conversely, which ones could be eliminated. On March 13, 2020, Texas Governor Greg Abbott issued an emergency declaration and ordered waivers for or suspensions of a number of regulations deemed unnecessary and harmful to the state's efforts to deal with the emergency (Abbott, 2020a). Even before the pandemic, in October 2019, Governor Abbott directed state agencies to begin identifying regulations that could be repealed or reduced (Platoff, 2019).

At the federal level, President Trump also signed executive orders to suspend a number of federal regulations during the emergency, and as early as 2017, ordered the overall reduction of regulations and costs by requiring the proposed elimination of at least 2 regulations for every new regulation proposed, and that the costs associated with the new regulation be offset by the elimination of costs associated with at least 2 existing regulations (Exec. Order No. 13771, 2017).

If the state and federal government and the public can function without these regulations during an emergency, then they can certainly function without them in non-emergencies. Even better, we can eliminate additional regulations deemed unnecessary or harmful. Their repeal would lead to improvements in economic growth and productivity and help create a desire for the ongoing review and elimination of unnecessary and harmful regulations.

While existing oversight and review procedures are available within the legislative and executive branch agencies to repeal regulations, Texas needs a more comprehensive and systematic procedure for the review of all regulations. To avoid creating new governmental organizations, this review

procedure could best be achieved by utilizing existing programs such as that within the Governor's Regulatory Compliance Division. With expanded authority, this division could review regulations on an ongoing basis and make recommendations to the Legislature and executive branch agencies for repeal of those regulations determined to be unnecessary or harmful. At the outset, regulations waived or suspended during the emergency declaration should be reviewed and recommended for permanent repeal or, at the very least, not be reinstated until determined necessary.

Background

The Texas economy is and has consistently remained among the strongest in the nation. Texas led the nation in economic growth in 2019 by adding over 342,800 jobs (Bureau of Labor Statistics, 2020). Before the pandemic hit, through February 2020, employment in Texas grew year-over-year for 119 consecutive months, with unemployment hitting historic lows (Texas Workforce Commission, 2020). Texas was also named by Site Selection magazine as the top state for economic development for the 8th consecutive year, far surpassing the second-place state (Arend, 2020).

This economic strength is not an accident. The long-standing and consistent economic expansion in Texas for the last several years owes its success and longevity, at least in part, to low taxes.

Texas has never had an individual income tax, and in November 2019, Texas voters sent a clear message that they intend to keep it that way when they voted overwhelmingly to adopt a new amendment to the state's constitution prohibiting a tax on personal income.

However, low taxes are only part of the equation. Reasonable regulations are another key element to a strong and vibrant economy. Elected leaders often and correctly cite the need for regulatory review and reform. Regulations should always be limited and reasonably related to protecting a state's interest. By that measure, Texas is well placed and improving. Texas ranks among the most economically free states in the nation according to a 2020 study by the Fraser Institute. The study (Stansel et al., 2020) analyzes and compares the policies of individual states and other nations in their support for economic freedom and the ability of individuals to act within the economy free of undue restrictions. Variables used in this study include government spending, taxes, and labor market freedom. The last of these more specifically analyzes labor market regulation, minimum wage legislation, government employment as a percentage of total employment, and union density.

The most recent report ranks Texas as fourth highest in economic freedom among all U.S. states with a score of 7.61, just below Virginia, Florida, and New Hampshire, which has the highest score of 7.84. The least economically free state is New York, with a score of 4.25.

Economic freedom also correlates with economic well-being. For example, the top quartile (one-fourth) of states with the highest economic freedom had an average per capita income of 4.6% above the national average, while the average per capita income of the bottom quartile with the least economic freedom was 8.1% below the national average (Stansel et al., 2020).

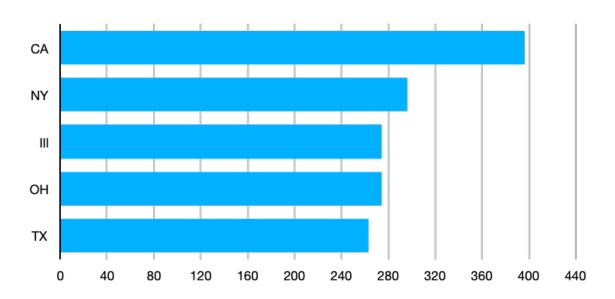
Number of Regulations by State

Despite its overall economic freedom, Texas still has one of the highest numbers of regulatory restrictions in the nation. According to the Mercatus Center at George Mason University (Broughel & McLaughlin, 2020), the state of Texas ranks fifth highest among all states in the total number of restrictive regulations. As seen in Figure 1, only California, New York, Illinois, and Ohio rank higher. The study measures regulatory restrictions by the number of words and phrases with restrictive language, such as shall, prohibited, or required. By that count, Texas has 263,369 restrictions

in the Texas Administrative Code, the repository of all published and effective regulations in the state (<u>Broughel & McLaughlin, 2020</u>).

Generally, the more restrictive the language, the more constraint is placed on the free market. Regulations prohibiting practice within a particular field without first obtaining a license and maintaining annual continuing education, such as for barbers, bartenders, and auctioneers, are a good example. These restrict competitors from entering the market and competing for business by offering lower prices and innovative service. The need to protect the public from harm is the stated purpose for such regulations, although the potential harm appears more obvious in some cases, such as for doctors, engineers, and insurance agents, than others. The need to ensure physicians and other medical providers are properly trained and professionally competent to practice results in regulations requiring education, training, and licensure designed to protect patients from physical harm. In other cases, a regulation's purpose of protecting patients from a potential harm is not so readily apparent. For example, these same physicians may be able to practice medicine in general but be prohibited from dispensing prescribed medication or utilizing certain advances such as telemedicine.





Note. Data from Quantifying Regulation in US States, by J. Broughel and P. McLaughlin, 2020, Mercatus Center (https://www.mercatus.org/publications/regulation/quantifying-regulation-us-states-state-regdata-20).

In other cases, the restrictive language may relate to the products or services that are allowed to be sold and in what manner. For instance, licensed insurance companies and agents are prohibited from selling certain policies without first filing specific rates and forms with the Department of Insurance. In some cases, these filings require approval; in other cases, the filing is merely informational with an opportunity for the department to contest or disapprove their use.

Ultimately, all regulations impose some level of constraint on economic activity and individual liberty. A license fee, a requirement of education and training, reports that must be filed, all act to dissuade some individuals and businesses from engaging in that activity. In order to overcome the burden to participants, the benefit of the regulation to the health and safety of the public should clearly outweigh the cost to the economy and individual opportunity. The question becomes: How do we determine what is necessary and whether the cost–benefit is appropriate?

What Is a Regulation?

Although the terms "rule" and "regulation" are usually interchangeable, a regulation in the context of this paper is the product of a rule that is formally adopted by a governmental body, most often an executive branch agency. Some regulations are specified in statute and may or may not need additional rulemaking to implement, although most do. Additionally, not all rules impose regulations. Some rules may only be instructional or procedural. A rule that imposes regulations, if properly adopted, has the force of law because it relies on authority granted by the legislative branch of government in statute. In effect, rulemaking is legislative in nature with authority granted to the executive branch agency by the legislative branch in statute. The authority does not end with the adoption of a rule imposing a regulation. The state agencies are usually also delegated the authority to adopt rules necessary to implement and interpret the statute and enforce compliance of the regulations. Violations of these rules and regulations incur penalties authorized by statute and codified in the rules ranging from warning letters and small fines to larger fines and suspension or loss of licensure. Those individuals and businesses subject to such rules are often required to file reports on a regular basis to ensure compliance and oversight.

Texas Government Code Section 2001.003 (6) defines a rule as "a state agency statement of general applicability that ... implements, interprets, or prescribes law or policy; or ... describes the procedure or practice requirements of a state agency."

Even with statutory authority, when adopting rules and regulations, state agencies must also observe the provisions of the United States and Texas constitutions, and all other state and federal laws (<u>Administrative Law Division, 2020</u>). These include provisions requiring publication of notice, hearings, and opportunities for interested parties to comment.

Many rules are adopted after input from interested parties, usually regulated entities, but the agency may and often chooses to initiate the rulemaking on its own initiative.

Continued Evaluation of Regulations

Regulations should be reviewed on a regular basis to evaluate and determine their continued need, their effectiveness, and their adverse impact on individuals, businesses, and the market overall.

A number of statutes in Texas already provide oversight or require the regular review of regulations for effectiveness and their burden on the economy and the state's citizens. The authority for these reviews rests with the Legislature, the governor, and multiple state agencies.

First and foremost, the Legislature is empowered to not only enact laws but repeal them as well, including repealing statutory authority for regulations deemed unnecessary or harmful. The Legislature also acts in an oversight role over various executive branch agencies that are charged with implementing regulations.

In some cases, this oversight results in repeal of regulations. For example, the Texas Legislature in 2019 repealed the criminal penalty for acting as an interior designer without a registration (HB 1894, 2019). There is no license requirement for such designers in Texas but registration was required for those referring to themselves as an "interior designer," with sanctions and criminal penalties imposed for violations. Ultimately, the Legislature and the governor determined that the potential harm to the public was not sufficient to warrant such penalties.

To continue these efforts, in October 2019, Governor Abbott directed state executive branch agencies to identify and eliminate unnecessary licensing regulations and to reduce fees and educational requirements where appropriate (Platoff, 2019).

Extraordinary Remedies – Pandemic Emergency and Beyond

An important development occurred on March 13, 2020, when the governor declared an emergency (Abbott, 2020a)

as a result of the COVID-19 pandemic, then followed with a number of orders waiving and suspending many regulations that would "prevent, hinder or delay" efforts to cope with the disaster (Abbott, 2020b). The waivers and suspensions provide for:

- expanding the use of telemedicine and telehealth options;
- allowing pharmacists to conduct telephonic consultations;
- allowing graduate nurses and vocational nurses to practice while waiting to take license exams;
- expanding the authorized practice of physicians in training;
- authorizing certain retailers and restaurants to deliver alcohol to customers;
- authorizing restaurants to sell bulk products to customers;
- waiving temporary permit requirements for out-of-state licensed truckers.

Many of the suspended regulations can and should be permanently repealed. The governor's authority to issue the executive orders waiving these regulations stems from the emergency declaration due to COVID-19. Any permanent repeal requires legislative action.

Government Code and Economic Impact Statements

The state of Texas imposes requirements on state agencies prior to adopting regulations to ensure the regulations are not burdensome. While these are appropriate and well-intentioned, they are not always effective. For example, Chapter 2006 of the Government Code requires agencies to conduct an analysis before adopting a proposed rule to determine whether the rule will have an adverse economic effect on small businesses and rural communities. While this is good public policy, it lacks enforcement in that failure to properly identify an economic impact does not invalidate the proposed rule.

The 85th Legislature adopted even more stringent requirements for agencies to prepare a government growth impact statement for each proposed rule. The statement must specifically address eight questions regarding how the proposed rule may impact various economic measures. Like the previous requirements, failure to comply with the statement does not invalidate the rule.

Texas Government Code, Sec. 2001.0221. GOVERN-MENT GROWTH IMPACT STATEMENTS. (a) A state agency shall prepare a government growth impact statement for a proposed rule.

- (b) A state agency shall reasonably describe in the government growth impact statement whether, during the first five years that the rule would be in effect:
 - (1) the proposed rule creates or eliminates a government program;
 - (2) implementation of the proposed rule requires the creation of new employee positions or the elimination of existing employee positions;
 - (3) implementation of the proposed rule requires an increase or decrease in future legislative appropriations to the agency;
 - (4) the proposed rule requires an increase or decrease in fees paid to the agency;
 - (5) the proposed rule creates a new regulation;
 - (6) the proposed rule expands, limits, or repeals an existing regulation;
 - (7) the proposed rule increases or decreases the number of individuals subject to the rule's applicability; and
 - (8) the proposed rule positively or adversely affects this state's economy.

Texas law also has provisions aimed at limiting the number of new regulations that impose costs on regulated entities. Government Code Section 2001.024 prohibits a state agency from adopting a rule with a cost on regulated entities unless it repeals or amends an existing rule that has an equal or greater cost. In effect, this requires a state agency to repeal or amend a rule for every rule adopted if there is a cost on regulated persons or entities associated with the rule.

The Government Code also requires all state agencies to review and consider for re-adoption all existing rules no later than 4 years after their effective date and every 4 years thereafter. The review "must include an assessment of whether the reasons for initially adopting the rule continue to exist," according to Section 2001.039(e).

While all of these provisions are good public policy, inconsistent application among agencies remains, notably because many agencies are not equipped to fully analyze the economic impact and the ongoing necessity of each

rule. A statewide, systematic review outside of each agency's rulemaking would improve application and help facilitate repeal of unnecessary and ineffective regulations. As noted below, these reviews would best be conducted by the Governor's Regulatory Compliance Division.

Legislative Action and Sunset Review

The Texas Legislature always has the power to enact laws that would repeal statutory provisions or entire agencies. To further assist in this process, the Texas Sunset Advisory Commission reviews state agencies every 12 years or as otherwise directed by statute. In its reports, the commission identifies and recommends areas within an agency or an entire agency that should be abolished, reorganized, or merged into a larger agency. The Legislature may choose any or all of these recommendations, which are drafted into a proposed bill. The Legislature must pass a bill to re-establish the agency with or without the Sunset Advisory Commission recommendations, or the agency is automatically abolished at the end of that fiscal year.

Occupational Licensing

A number of occupations and professions require a license, the payment of a fee, and many other costs such as hours of continuing education before and after licensure. These costs are particularly burdensome on low-to-middle-income individuals and can act as bars to entry (Ginn & Timmons, 2018).

In an effort to reduce these burdens, the state has abolished many small licensing agencies, and their regulatory authority has been merged with larger agencies or transferred to the Texas Department of Licensing and Regulations (TDLR). At the very least, this allows for efficiencies and standardization of rulemaking. Some of these former agencies include:

- <u>Air Conditioning and Refrigeration Contractors</u> Advisory Board
- <u>Texas State Board of Barber Examiners</u>
- Texas Cosmetology Commission
- Texas State Board of Examiners of Dietitians
- State Committee of Examiners in the Fitting and Dispensing of Hearing Instruments
- Texas Industrialized Building Code Council
- Office of Commissioner of Labor and Standards
- Texas Midwifery Board
- Texas Board of Orthotics and Prosthetics
- Texas State Board of Podiatric Medical Examiners

- Polygraph Examiners Board
- State Board of Examiners for Speech-Language Pathology and Audiology
- Board of Tax Professional Examiners
- Texas Water Well Drillers Board

And more recommendations for consolidation are likely. The Sunset Advisory Commission has recently recommended the elimination of additional licenses currently under the authority of the TDLR (<u>Sunset Advisory Commission Staff</u>, 2020).

Specifically, the report found 15 license types across eight programs that do not meaningfully protect the public and are no longer necessary. These include auctioneers, breeders, and professional employer organizations, among others. The report further noted:

Sunset staff's analysis found these licenses do not meet the Sunset Act's criteria for regulatory need given limited enforcement activity, duplication of existing controls, minimal public exposure, or numerous exemptions that significantly undermine regulation. Ultimately, Sunset staff found these regulatory programs and licenses are no longer needed and could be safely eliminated. (Sunset Advisory Commission Staff, 2020, p. 3)

Office of the Governor – Regulatory Compliance Division

The Governor's Office also has a Regulatory Compliance Division, established under Subchapter C, Chapter 57, of the Texas Occupations Code, that requires certain state licensing agencies to submit their rule proposals for review. The division is directed to review proposed rules and determine their effects on market competition and whether the rule is consistent with state statutory policy. This is an added protection against unnecessary and harmful regulations, specifically those determined to affect competition. Agencies subject to reporting "must submit any proposed rule affecting market competition" to the division for review under Texas Occupations Code, Section 57.105 (a).

Under Texas Occupations Code, Section 57.105 (d), a rule affects market competition if it would "(1) create a barrier to market participation in this state; or (2) result in higher prices or reduced competition for a product or service provided by or to a license holder in this state."

While the division's review process ensures that there is sufficient statutory authority for proposed rules that may be anticompetitive, even if sufficient legal authority exists for such rule, the adverse effect on competition may warrant further legislative review to amend or repeal such legislative authority. As such, the division's authority should be expanded to include additional agencies and standards for review and to make legislative recommendations for the elimination of rulemaking authority for anticompetitive rules.

Solutions

Texas's leaders have worked hard to identify and reduce excessive regulations, but there are opportunities to do even more and to eliminate unnecessary, ineffective, and harmful regulations both legislatively and within regulatory agencies.

One approach is to create a systematic review of every rule and regulation for its necessity, effectiveness, and adverse impact on individuals and businesses in the marketplace. The state already requires a sunset review of every regulatory agency at least every 12 years. While this sunset review analyzes the need for the agency and its programs, individual regulations should also be reviewed separately to provide a more concentrated analysis of the need and adverse impact of these regulations.

Given the large number of regulations to be reviewed, and the varied abilities of state agencies to adequately perform the required analysis, a systematic statewide effort should be created. To assist in this effort, the Governor's Office's Regulatory Compliance Division should be authorized to perform or coordinate this review process. In the alternative, a new advisory commission could be created to assist in the process.

Importantly, the process should begin with those rules already suspended by order of the governor during the COVID-19 pandemic and those identified for repeal by individual agencies. The next phase should review each section of the Texas Administrative Code, with particular attention to occupational licensing.

Recommended Reforms

- Permanently repeal or extend waivers and suspensions of rules and regulations made during the governor's declared emergency until a formal assessment can be made that such rules are necessary and will not hinder competition or economic participation.
- Expand on the list of rules and regulations waived or suspended by directing agencies to review and repeal unnecessary regulations.
- Direct the governor's Regulatory Compliance Division to review all rules and regulations that not only violate antitrust but also impede or unnecessarily restrict access by individuals and businesses to the marketplace.
- Support the recommendations in the TDLR sunset staff review to eliminate 15 current licenses and streamline advisory board meetings.

Texas remains a strong and vibrant state for business and individuals to thrive. Our job growth, tax burden and overall economic freedom are among the best in the nation, but far more can be done to reduce the regulatory burden on those individuals and businesses entering the marketplace. Texas values its freedom and liberty. These reforms can help keep it that way.

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ABOUT THE AUTHOR



Rod Bordelon

Rod Bordelon is a senior fellow and policy director for the Remember the Taxpayer campaign at Texas Public Policy Foundation. He is an attorney and regulatory and legislative affairs consultant in Austin, Texas, with over 30 years of experience in insurance, workers' compensation, and health law. He is an eleven-term gubernatorial appointee, former commissioner of workers' compensation, and former public insurance counsel. Bordelon is a

graduate of the University of Texas at Austin and South Texas College of Law in Houston.

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