



Testimony

HB 819

Reducing Barriers to Entrepreneurship *Testimony Submitted for HB 819 to the Texas House International Relations & Economic Development Committee*

by Vance Ginn, PhD, Chief Economist

Chair Button and Members of the Committee:

My name is Vance Ginn, and I am chief economist at the Texas Public Policy Foundation. Thank you for the opportunity to testify in support of [HB 819](#), which would create pilot programs to encourage opportunities to flourish in disadvantaged areas by reducing governmental barriers to work and get an education. The areas in Texas targeted by HB 819 are often disproportionately burdened by high regulations like occupational licenses and by high taxes like the business franchise tax, also known as the margins tax. Thus, these areas would benefit greatly by reducing and removing those barriers to unleash Texans' desire and opportunities to flourish.

Overview of HB 819

- This bill would create the Special Economic Zone Pilot Program and the Rural School Innovation Zones Pilot Program.
- The pilot programs will be in specific areas of Texas that are deemed disadvantaged based on criteria noted in the bill and related to economic and educational indicators. Specifically, the Special Economic Zones will reduce the burdens of occupational licensing and of the business margins tax while the Rural School Innovation Zones would improve educational opportunities.
- This bill will help to align educational, regulatory, and economic development solutions to [provide an inclusive institutional framework](#) supporting growth within these communities
- While the goal should be to take these efforts statewide, this legislation is an important step.

Facts of Occupational Licensing

- According to the Institute for Justice's 2017 report, Texas had the [21st most burdensome licensing laws](#) with, "on average, \$253 in fees, 341 days of education and experience, and around two exams. Licensing fewer lower-income occupations than most states, Texas ranks at the nation's 42nd most broadly and onerously licensed state."
- The upward licensing trend in Texas has been similar nationwide, with government licenses as a share of the workforce, [quadrupling from 5% in the 1950s to 21.9% in 2020](#) nationally.
- These licenses act much like unions do, creating unnecessary barriers to entry. The Foundation recently noted a [93% negative correlation](#) between the declining share of the workforce in a union and the increasing share with a license.
- Licensing nationwide has been estimated to result in a [total economic loss of \\$203 billion and a loss of 2.85 million jobs to Americans](#). And [occupational licensing costs tens of billions of dollars per year](#) contributing to an estimated 20% lower job growth rate.
- With fewer workers able to join an occupation, competition decreases, resulting in [inflated wages of about 15%](#) for those lucky to have that job. But [licensing increases wages by no more than 5% for low-income earners](#) while it increases wages for high-income earners by up to 24%.
- Licensure in low- to moderate-income occupations is also associated with [reductions in absolute upward mobility and increases in income inequality](#).

- A recent Mercatus Center meta-study showed that the vast majority of 19 studies found the effect of occupational licensing on the quality of work to be [insignificant or lower quality](#).

Facts of Business Franchise Tax

- Businesses do not pay taxes; people do. Whether in the form of higher prices, lower wages, or fewer jobs available, Texans ultimately pay for taxes.
- The [business margins tax](#), a broad-based, gross-receipts-style margins tax, is complex and unique among all taxes nationwide. Eliminating this onerous tax would best serve Texans.
- The margins tax is inherently complex with multiple calculations to determine the lowest tax liability, two tax rates depending on business type, and the \$1 million gross revenue exemption.
- Studies modeling the dynamic economic effects of fully phasing out or [repealing the margins tax find further economic benefits](#), including thousands of net new private sector jobs and billions of dollars in net new personal income statewide.

Benefits of the Special Economic Zones in HB 819

- This bill will help small businesses, nonprofit corporations, municipalities, counties, and independent school districts within the special economic zone by waiving or reducing permitting fees, reducing taxes, reducing occupational licensing costs, and encouraging development of readily available permits for industrial activities conducted within the zone.
- Reducing occupational licensing restrictions could substantially improve opportunities for people in these areas of Texas.
- And regarding the business margins tax, the bill would allow for a \$2 million deduction from the margins tax, thereby allowing more opportunities for employers to invest in their business, hire workers, and raise workers' wages.

Recommendations

- HB 819 would benefit Texans in disadvantaged communities across Texas, and its pilot programs should showcase the need for similar efforts statewide.
- While a goal of the program should be to provide as much benefit to Texans as possible in these zones, there may be a need to narrow the targeted areas or benefits to help target the individuals most in need and reduce the fiscal note while also considering reining in government spending to address any fiscal concerns.
- Overall, a reasonable fiscal note should be secondary given that this bill would not grow government and instead reduce regulatory and tax burdens, helping grow the economy, particularly in areas of most need in the state.
- Longer term, the Legislature should consider
 - Reducing and ultimately eliminating licensing barriers to work for most occupations, and
 - Eliminating the business margins tax, which could be accomplished at once or by phasing it out over time by cutting the rates while [limiting government spending](#).

I appreciate your work and look forward to seeing the passage of the bill and its positive effects. ★

ABOUT THE AUTHOR

Vance Ginn, PhD, is chief economist at the Texas Public Policy Foundation, a 501(c)3 non-profit, non-partisan research institute in Austin. He served as associate director for economic policy at the White House's Office of Management and Budget, taught at several universities, and earned a doctorate in economics at Texas Tech University.

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