Open for Business

7 Simple Steps Cities Can Take To Foster Economic Liberty

By Paul Sherman  
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Executive Summary

Throughout the nation, cities and counties are looking for ways to promote economic liberty and improve the well-being of their residents. But all too often this desire to improve economic conditions manifests itself in expensive and wasteful corporate welfare, public investment in real estate schemes, quaint-but-inefficient forms of mass transit, and other counterproductive uses of tax dollars. It’s time for a different approach—one that promotes economic growth by unleashing the transformative power of economic liberty.
This report examines seven things local governments can do to promote economic liberty. But unlike the grand plans that typify so much talk of economic development—plans that consistently overpromise and underdeliver—these seven things are based on a different approach, one that has a proven record of success: Local governments can unleash the creative potential of their citizens by embracing economic liberty and reducing or removing barriers to entrepreneurship.

These barriers to entrepreneurship come in many forms. Some affect the ability of businesses to open up in the first place, while others restrict the ability of new businesses to compete effectively or to communicate with their customers. And although there are countless such barriers in place across the country, the Institute for Justice (IJ) has identified seven that are both widespread and could be reduced or removed at low or even no cost to cities. Accordingly, to promote entrepreneurship IJ recommends that cities:

- Streamline business licensing.
- Reduce or remove restrictions on street vendors and food trucks.
- Allow for more competition in transportation markets.
- Liberalize regulation of signage.
- Expand opportunities for home-based businesses.
- Reduce the burden of overly restrictive zoning codes.
- Remove unnecessary regulations for food businesses.

These seven suggestions are not meant to be exhaustive; they are instead meant to encourage municipal leaders to critically examine existing regulations by simply asking “Why?” Why is the process of starting a business so complicated? Why are some businesses insulated from competition in the free market? Why do we have this or that regulation? Often, this simple inquiry will reveal that existing regulations or processes are supported by no good reason and that we would all be better off without them.
1. Business Licensing

Perhaps the most common complaint among small-business owners is the difficulty of getting all of the necessary licenses and permits to open. In some cases, these requirements verge on the absurd. In Miami, for example, aspiring street vendors are required to obtain, among other things:

- An occupational license from the city of Miami;
- An occupational license from Miami-Dade County;
- A license from the Florida Department of Business and Professional Regulation if the vendor intends to sell prepared foods like hot dogs ($347 + $50 application fee); or a license from the Florida Department of Agriculture if the vendor intends to sell only pre-packaged food or fruit ($300 + $10 epidemiology fee); or a license from the City of Miami if the vendor intends to sell confections like gum, cookies, or candy ($61);
- State and local tax certificates;
- A certification from the Department of Revenue that all taxes have been paid;
- A current DMV registration and plate number of the cart; and
- A “Cart Certification Form” signed by three different bureaucrats from three different departments.

And this is just one example of one trade from one city—countless aspiring entrepreneurs across the country could tell similar stories of overly burdensome licensing in their own cities. Undoubtedly, many of these certifications and licenses could be eliminated. But to the extent they remain necessary, why should aspiring entrepreneurs have to drive to multiple offices just to fill out the paperwork necessary to start a business?

Simply put, they shouldn’t, which is why one commonsense solution, offered by the cities of Chicago and New Orleans, is to consolidate licensing for small businesses into a single “one-stop shop.” In Chicago, that one-stop shop is the Small Business Center, a division of the city’s Department of Business Affairs and Consumer Protection. In New Orleans, the agency is actually called the One Stop Shop. Launched in 2013, both of these offices are intended to allow aspiring entrepreneurs to apply for licenses, confirm that they are properly zoned and schedule inspections in a single office visit or even online. As of yet, it is unclear how effective these offices are at achieving true one-stop shopping for business licenses, but they provide an aspirational model that other municipalities should emulate.

Another step that municipalities can take is to rewrite licensing laws to allow for businesses that do not fit comfortably into existing licensing categories. Overly rigid licensing laws can stifle creative business ventures. In Chicago, for example, entrepreneur Zina Murray’s efforts to open an innovative “shared kitchen” stalled after the city decided that her business should be regulated as a banquet hall, even though it hosted no banquets. Had the city simply stopped and asked “Why?”—why is it necessary that an innovative new business fit into a narrow, pre-existing category before it can operate?—Zina’s business might still be open and serving as an incubator for other food entrepreneurs in Chicago. Instead, these restrictions, combined with a seemingly endless array of other bureaucratic requirements, forced Zina to close her doors.

Bottom line:

- Reduce or eliminate unnecessary or duplicative licenses.
- Establish one-stop shopping for required licenses.
- Eliminate overly rigid business classifications that stifle innovation.
In Miami, stationary vendors like Marcelo Segundo are required to obtain a license called a "business-tax receipt" from the city. Marcelo had to pay $439 for his city business-tax receipt—more than 25 percent of the total start-up cost of his business—before he could sell a single flower.
2. Street Vending and Food Trucks

Street vending has long been a part of the American economy and a fixture of urban life. In recent years, vendors operating from sidewalk food carts have been joined by food trucks offering consumers a wide variety of dining options. As was perhaps inevitable, however, these growing industries have been met with resistance from established businesses, particularly restaurants. All too often, this results in burdensome regulation that hampers—and in some cases prevents—the creation of businesses offering valued services.

For many cities, the first step to addressing these problems will simply be to legalize the street vending or food truck business models. Why not? Consumers clearly want these additional dining options, and there is no sound health-and-safety justification for the government to ban the business models. To the contrary, a recent study of food trucks and carts by the Institute for Justice found—after reviewing more than 260,000 food-safety inspection reports from seven large American cities—that food trucks and carts were just as safe as restaurants.5

Cities that already allow food trucks and carts should look for ways to liberalize their laws and remove unnecessary restrictions. To that end, the Institute for Justice has made a variety of recommendations regarding how cities can regulate issues such as food safety, parking, refuse, liability insurance, and commissary requirements.6 Overall, the report recommends that food truck and street carts be held to food-safety requirements just like brick-and-mortar restaurants, but that cities and counties should not enact regulations—such as proximity restrictions or restricted zones or times—that exist primarily to protect restaurants from competition.

Inevitably, efforts to reduce burdens on food truck owners meet with opposition from restaurant owners. One common argument is that food truck owners, unlike restaurant owners, are not required to pay property taxes. But this argument ignores the fact that restaurant owners pay property taxes because, unlike food trucks, they own property. That carries with it many benefits that food truck owners do not enjoy, such as having a fixed location or being able to provide customers with seating and air conditioning. In other words, when it comes to property taxes, comparing brick-and-mortar restaurants to food trucks is like comparing apples to oranges.

Another common argument is that restaurants are often subject to pervasive regulation and licensing, and that any effort to liberalize the regulation of food trucks will put restaurants at a competitive disadvantage. But this is no reason to hold off on reducing unjustified burdens on food truck owners. Instead, it is another opportunity to ask “Why?”—why have we imposed these regulations on restaurants in the first place?—and to look for new ways to reduce the burden that those entrepreneurs face. For example, many brick-and-mortar restaurants are unreasonably prohibited from adding outdoor seating. Eliminating or reducing these restrictions would be a reasonable means of allowing restaurants to compete more effectively with food trucks and carts that cater to outdoor diners.

**Bottom line:**

- Legalize food trucks and carts.
- Hold food trucks and carts to safety standards that are comparable to restaurants, but that take account of the mobile nature of the business.
- Repeal anticompetitive proximity and durational restrictions.
- Promote competition by removing unjustifiable burdens on brick-and-mortar restaurants.
Laura Pekarik owns and operates Cupcakes for Courage, a food truck in Chicago, IL. Represented by IJ, she’s challenging Chicago’s restrictive street-vending laws, which have driven other food trucks out of business.
3. Transportation

Historically, one of the easiest ways for entrepreneurs to start climbing the economic ladder was to take a job in transportation. With just a driver’s license, a safe vehicle and insurance, anyone could become their own boss driving a taxi or a jitney van. But as cities increasingly regulated (or, in the case of jitneys, outlawed) these industries, opportunities for entrepreneurship dried up.

Today, the advent of ridesharing apps like Uber, Lyft and Sidecar has created new opportunities at even lower cost to entrepreneurs, and it is vital that cities not repeat the mistakes of the past by shutting down these opportunities merely to protect existing businesses, like taxis, from competition. Beyond requiring that ridesharing drivers have a valid driver’s license, a safe vehicle, and a suitable amount of insurance, municipalities in states that allow for local regulation of transportation markets should place no additional restrictions on these services.

But cities and counties shouldn’t just open up the market to ridesharing services; they should also reconsider other transportation regulations. Obvious targets for elimination are “medallion” systems or other government-enforced caps on the number of taxicabs that can operate in a given market. These systems artificially restrict competition in the taxi market, usually for the benefit of a small group of people who own a huge number of permits. In Milwaukee, for example, one family controlled nearly half of the taxi permits in the city. As a result, drivers were forced to either lease a permit from an existing permit-holder or pay as much as $150,000—more than the median price of a home in Milwaukee—to purchase one of the existing permits. So why not just eliminate these caps? That’s what Milwaukee did following a successful lawsuit by the Institute for Justice. As a result, the number of taxicabs nearly doubled, and these drivers now compete successfully alongside ridesharing drivers.

Other targets for repeal are regulations that prohibit low-cost transportation options like jitneys and dollar vans, or that impose minimum fares on car services. The city of Nashville, Tennessee, for example, recently repealed its $45 minimum fare for limo companies, bringing more competition to the transportation market from companies like IJ client Metro Livery. The result has been new jobs in the transportation industry and lower costs for consumers.

Ultimately, the number of cabs, ridesharing cars, and jitneys on the road—and what those drivers charge—should be determined by entrepreneurs and consumers in the free market, not by government bureaucrats, and certainly not by self-serving would-be monopolists.

The number of cabs, ridesharing cars, and jitneys on the road—and what those drivers charge—should be determined by entrepreneurs and consumers in the free market, not by government bureaucrats, and certainly not by self-serving would-be monopolists. New transportation options take people to work and put people to work, with attendant economic benefits for everyone.

Bottom line:

- Allow anyone with a driver’s license, a safe vehicle and appropriate insurance to drive for pay.
- Remove government-imposed caps on new entrants into the taxi market.
- Legalize low-cost transportation options like jitneys and dollar vans.
- Eliminate minimum-fare laws.
Is legalizing competition in the transportation market legal?

Whenever a business enjoys monopoly profits, it’s a good bet that it will resist reforms that would allow new entrants into the market. So it is in the transportation industry, where the owners of taxi permits have lobbied hard to maintain existing caps on taxicabs and to prevent ridesharing businesses from encroaching on their turf.

But when these lobbying efforts fail, it has become increasingly common for the owners of taxi permits to file lawsuits to block legislation that would open up the transportation market. Although such lawsuits have been filed in Minneapolis, Milwaukee, Chicago and San Diego, not one has been successful. Courts that have considered the issue have universally held that the holders of taxi permits have no right to a perpetual stream of government-enforced monopoly profits. So while there’s little that can be done to prevent disgruntled permit-holders from filing such lawsuits, it’s a safe bet that they will not succeed.
4. Sign Codes

For small businesses, there is perhaps no advertising method that delivers more bang for the buck than the humble sign. They may not be flashy or slickly produced, but window signs and A-frames are a vital means of advertising prices, sales or even the location of an out-of-the-way small business.

Unfortunately, for small-business owners, signs are pervasively regulated at the municipal level. These regulations can take the form of overly complex permitting schemes or even outright prohibitions on most types of signs. Oftentimes, these regulations also favor some industries at the expense of others. In Sacramento, California, for example, IJ clients Carl and Elizabeth Fears were prohibited from putting up signs to advertise the location of their gym, even though a real estate sign of identical size in the same location would be perfectly legal.

Luckily for the Fears family, Sacramento repealed its law after the Institute for Justice challenged it in court. And luckily for small-business owners throughout the country, the U.S. Supreme Court recently held in Reed v. Town of Gilbert that this sort of “content-based” regulation—that draws distinctions between permissible and impermissible signs based on the subject matter of the signs—is subject to the highest level of judicial review, and will usually be held unconstitutional. As a result, a large proportion of existing sign codes contain provisions that are no longer constitutionally enforceable.

Municipalities that want to encourage business growth should be proactive and revise their sign codes to bring them into compliance with the Supreme Court’s decision in Reed. Why should cities be proactive? For one thing, doing so will save cities the cost of expensive and fruitless litigation. For another, doing so will still leave cities with the flexibility to regulate signs for legitimate public-safety reasons. And, best of all, it will allow budding entrepreneurs across the city to let potential customers know that their businesses exist, thereby increasing opportunity, employment, and the city’s tax base.

To avoid litigation, municipalities drafting or revising sign codes should be guided by two main principles. First, sign codes should not play favorites by granting special rights to certain speakers, such as real estate agents or political candidates, while hampering the speech of other, less politically powerful speakers. Second, sign codes should be narrowly focused on promoting public health and safety. That means that while cities can properly regulate signs for being unsafely secured to buildings or for having distracting flashing lights, cities should not regulate signs merely out of distaste for commercial advertising. Such advertising is vital to small businesses and vital to economic growth.

Bottom line:
- Eliminate any rules that depend on the subject matter of the sign. Real estate signs, flags, and signs about prices must all be treated the same.
- Focus sign regulation on genuine health-and-safety concerns, such as preventing injury from falling signs, blinding lights, and signs blocking traffic.
Carl and Elizabeth Fears were prohibited from putting up signs to advertise the location of their Sacramento, CA gym.
The story of Apple, Inc., is, perhaps, the quintessential American success story: A pair of entrepreneurs with unparalleled vision start a business in the garage that grows into one of the wealthiest corporations in the world. But a home-based business need not be a future tech giant to make valuable contributions to the economic health of the community. Piano teachers, hair braiders, and daycare providers all offer valuable services—if they are given the chance to do so.

Unfortunately, many communities have enacted restrictions that make starting a home-based business all but impossible. Common arbitrary restrictions include limits on the types of businesses that can be operated in the home that are not based on health or safety concerns, limits (or prohibitions) on outside employees, limits (or prohibitions) on customers coming to the house, prohibitions on signage, and parking restrictions.

In each of these cases, regulators should ask themselves whether existing regulations are necessary and, if so, whether they are genuinely proportional to the supposed problems created by home-based businesses. As a general matter, municipalities should expand the number of permissible uses, meaning those home-based businesses that can be started without having to seek a zoning variance. In doing so, the focus should be on curtailing only those businesses that interfere with others’ enjoyment of their property, such as by creating loud noises or unpleasant odors.

- Legalize all home-based businesses, except those that interfere with neighbors’ enjoyment of their property, such as by being excessively noisy or smelly.
- Refrain from imposing employee or visitor restrictions, except where there is insufficient parking on the property and there is a genuine problem with lack of street parking.
- Eliminate permitting requirements for nondangerous home-based businesses that already have a business license.

Piano teachers, hair braiders, and daycare providers all offer valuable services—if they are given the chance to do so. Unfortunately, many communities have enacted restrictions that make starting a home-based business all but impossible.
Achan Agit braids a neighbor’s hair in her home in Des Moines, Iowa.
6. Zoning

Economic development is a dynamic process—no one can predict in advance where the next successful business is going to start or what is going to be the next growth industry. So it’s no surprise that some of the biggest barriers to economic dynamism are the notoriously rigid laws that regulate zoning. In theory, zoning laws are designed to enhance the overall value of property by grouping specific uses of property—such as residential, business, or manufacturing—into particular geographic regions. But in practice these laws often needlessly stifle entrepreneurship and economic development. **Why not try a more flexible approach?**

Direct restrictions on the use of property, such as the restrictions on home-based businesses discussed above, should be scaled back to allow for new uses of property so long as they do not cause a nuisance to surrounding property owners. And when municipalities are considering zoning for new developments, there should be a presumption in favor of mixed-use zoning that will allow for a combination of housing and commercial uses in the same neighborhood.

Municipalities should also look for other ways to make zoning more flexible and responsive to market principles. One way to do this is through “overlay zoning.” In Anaheim, California, for example, the city updated its general land-use plan to create an overlay zone that permitted residential and commercial uses of property in areas that had previously been zoned only for light-industrial use. This allowed existing property owners to continue to make use of their property as they always had while providing developers with the flexibility to respond quickly to new demand for housing or retail options.

Other targets for zoning reform include minimum parking requirements for new construction. Developers already have an economic incentive to provide sufficient parking for customers or residents in new buildings. Government-mandated minimums, however, are often set inefficiently high, which increases construction costs and decreases space available for other uses. **Why are these necessary?**

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**Bottom line:**
- Classify more areas as appropriate for multiple kinds of uses.
- Use overlay zoning to create flexibility for developers and property owners.
Dallas, Texas officials are demanding that Hinga Mbogo stop repairing cars at his popular shop, Hinga's Automotive Company, because it doesn't fit in with their plans to reimagine the up-and-coming neighborhood.
7. Food Regulation

Street vendors and food truck owners aren’t the only entrepreneurs hampered by burdensome regulations on food-service providers. Municipalities frequently require that food for commercial sale be prepared in a commercial kitchen, the cost of which can be tens of thousands of dollars. This upfront expense can price many entrepreneurs out of the market.

The high cost of accessing a commercial kitchen can be addressed in two ways. One is to allow for the operation of “shared kitchens.” These are commercial kitchens that food entrepreneurs can rent access to for limited periods of time. Unfortunately, many cities either do not allow for the operation of shared kitchens or make them practically impossible to operate by inflexibly applying outdated, ill-fitting regulations to this new business model. Changing or repealing these regulations would dramatically lower the cost of starting a food business by allowing the cost of operating a clean and regularly inspected commercial kitchen to be spread among multiple renters.

Another alternative is to allow for more foods to be prepared in noncommercial kitchens and, specifically, to be prepared in home kitchens. The state of Wisconsin, for example, irrationally distinguishes between food like syrups, salsas, jams and popcorns—which may be prepared in home kitchens—and baked goods like cookies, cakes and pies—which must be prepared in commercial kitchens. Why not allow more people to prepare food in the kitchens they cook in every day? Some states, including Minnesota, have already begun moving in this direction, increasing the amount of food that home bakers can legally sell, as well as expanding the venues in which they can sell it. Removing these restrictions, and allowing people to prepare food for sale in the same kitchens where they prepare food for their own families, would dramatically expand opportunities for food entrepreneurs.

Certainly, the government has a legitimate interest in promoting public health and safety and can impose reasonable regulations on the preparation of foods for sale. Such regulations may include, for example, labeling requirements, such as a list of ingredients and the inclusion of common allergens. In the case of homemade food, labeling regulations can also require a statement that the food was made in an uninspected home kitchen. But, unlike blanket prohibitions and one-size-fits-all regulations, appropriate food regulations should focus narrowly on the government’s interest in promoting health and safety without imposing unnecessary burdens on food entrepreneurs.

**Bottom line:**
- Allow the sale of home-prepared foods.
- Allow for the operation of shared kitchens and other alternative food-preparation sites that meet established health and safety standards.

The state of Wisconsin, for example, irrationally distinguishes between food like syrups, salsas, jams and popcorns—which may be prepared in home kitchens—and baked goods like cookies, cakes and pies—which must be prepared in commercial kitchens.
In order to sell even one cookie, Wisconsin requires bakers to use an expensive commercial kitchen and obtain a burdensome commercial food license.
Conclusion

As this report has shown, there are numerous ways in which municipal governments stand in the way of innovative small businesses—and one of the easiest ways that municipalities can promote economic growth is simply to get rid of or modify these policies. Municipalities that want economic growth need to stop assuming that “the way things have always been done” is the way things must be done. This simple change in attitude—adopting a willingness to ask why things are the way they are and whether they must stay that way—can promote economic liberty unleashing remarkable results that benefit entrepreneurs, consumers and communities.
Endnotes


7 See, e.g., Minneapolis Taxi Owners Coalition, Inc. v. City of Minneapolis, 572 F.3d 502 (8th Cir. 2009); Joe Sanfelippo Cabs Inc. v. City of Milwaukee, 148 F. Supp. 3d 808 (E.D. Wisc. 2015).


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Paul has extensive experience litigating First Amendment cases and has helped to develop IJ’s occupational-speech practice, which seeks to create greater constitutional protection against occupational-licensing laws that burden speech. In the area of economic liberty, Paul has challenged government overreach by dental and veterinary licensing boards in Alabama, Connecticut, Georgia, and Maryland as part of IJ’s mission to protect the right to earn an honest living free from unreasonable government regulation.


Paul received his law degree from the George Washington University Law School in 2006.
About IJ

The Institute for Justice is a nonprofit, public interest law firm that litigates to secure economic liberty, school choice, private property rights, freedom of speech and other vital individual liberties and to restore constitutional limits on the power of government. Founded in 1991, IJ is the nation’s only libertarian public interest law firm, pursuing 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 government.