Regulation Issue

Industry’s Complaints About New Rules Are Predictable—and Wrong
Acknowledgments

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About Public Citizen

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The Chamber of Commerce, industry groups, and its allies have been repeating the same refrain for decades: Regulation will hurt businesses, cause job losses, and reduce profits. In just one example, the U.S. Chamber of Commerce groused in 1934 that the bill to create the Securities and Exchange Commission represented an “impossible degree of regulation of the credit agencies and business enterprises of the country.”¹ Today, at the national, state, and city levels, opponents of regulation claim proposed rules will eliminate jobs, reduce profits, and hurt consumers.

But such doomsday forecasts rarely, if ever, materialize. Regulations that prompt hysteria when they are being debated usually end up imposing minimal costs on businesses once they take effect. And they often yield significant benefits. Take the securities laws that the Chamber and other groups opposed in the 1930s. Today, in reference to institutions established by the Securities Act of 1934 and other New Deal reforms, the Chamber says “America’s well-regulated, efficient, and transparent markets promote economic growth and prosperity while also maintaining the U.S. as the premier global financial center.”²

This report looks at five more recent areas that have followed a familiar pattern: The proposed regulation initially prompts industry to conjure dramatic language about the damage it will cause. Then, the regulation takes effect and wins broad public approval. Meanwhile, industry’s ominous predictions quietly recede from memory after they fail to materialize.

**San Francisco Paid Sick Leave**

In 2007, San Francisco enacted a city-wide ordinance that provides paid sick leave to all employees who work in the city. The measure called for workers at firms with 10 or more employees to accrue one hour of paid sick leave per 30 hours of paid work, beginning 90 days after the employee’s start date. Workers at these firms could acquire a maximum of nine days per year, whereas workers at firms with 10 or fewer employees could accrue five days. These days could be used for personal illness, injury, or medical appointments, or to care for a family member.³

In a statement, the San Francisco Republican Party argued that the paid sick leave ordinance was a “job-killing attack on San Francisco’s economic engine.”⁴ Kevin Westlye, executive director of the Golden Gate Restaurant Association suggested to *The New York*

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² Id.
Times that paid sick leave would cause restaurants to raise prices, lose customers, and in many cases, close.⁵

But after implementation of the paid sick-leave law, San Francisco experienced an increase in employment. A study by the Drum Major Institute found that employment in San Francisco increased 3.5 percent between the start of 2006 and the start of 2010. In San Francisco’s five closest neighboring counties, employment fell 3.4 percent during the same period.⁶ The same study found that despite predictions to the contrary, the number of businesses in San Francisco grew by 1.64 percent between 2006 and 2008 while falling by 0.61 percent in neighboring counties. San Francisco also experienced growth within both large and small businesses, and within the retail and food service industry during this period.⁷ (These industries expected to be affected most by the ordinance.)

The impact on businesses themselves was minor: A majority reported that understanding and implementing the ordinance was either “not difficult” or “not too difficult.”⁸ Additionally, while only 14 percent of businesses reported a negative impact on profits, more than 70 percent reported that the law had either no impact or a positive impact on their profitability.⁹ Productivity, and thus profitability, suffers when workers are forced to come to work when they are sick. One study on the impact of illness on productivity estimates that businesses lose twice as much money to workers who show up at work while sick than when workers stay home due to an illness.¹⁰

Despite predictions by its opponents, San Francisco’s Paid Sick Leave Ordinance has been very successful. Arguments that employees would abuse the practice were proven false, with one study finding that among employers that started offering either five or nine sick days per year, the average employee only used three, and nearly 25 percent used none at all.¹¹ Finally, more than 75 percent of businesses supported the law.¹² After its implementation, many small business owners discovered that many of the dire consequences predicted prior to the ordinance’s passage, virtually none of them came to fruition. In 2010, three years after the ordinance was enacted, the San Francisco Chamber

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⁷ Id.
⁹ Id., 21.
¹² Id., 24.
of Commerce realized there was very little impact on business, noting that "it has not been a huge issue that we have heard from our members about." 13

**Family and Medical Leave**

**Family and Medical Leave Act of 1993**

In 1993, President Clinton signed the Family and Medical Leave Act (FMLA), which guarantees that employees will receive job-protected, unpaid leave to recover from an illness, care for a sick relative, or bond with a newborn child. 14 The FMLA applies to all public sector employees at the local, state, and federal level, as well as private-sector employees who work in 20 or more work weeks at firms of more than 50 employees. 15

> "The light of freedom will grow dimmer," if the Family and Medical Leave Act passes.
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At the time of its passage, the U.S. Chamber of Commerce spoke out against the FMLA, claiming that most Americans “don’t want the federal government as their personal administrators” 16 Many conservatives joined the chorus. Rep. Rodney Grams (R-N.M.) argued that passing the FMLA would hurt employees, predicting that “tens of thousands of working men and women will be put out of work if this bill passes.” 17 Rep. John Boehner (R-Ohio) proclaimed that if the FMLA passed, “the light of freedom will grow dimmer.” 18

But two independent surveys, conducted in 1996 and the 2000, found that the FMLA had virtually no impact on the vast majority of businesses whose operations were covered by the legislation. First, a 1996 report by the bipartisan Commission on Leave and the U.S. Department of Labor found that between 85 percent and 95 percent of businesses polled found no discernible impact on productivity, profitability, and growth. 19 Additionally, between 89 percent and 99 percent of employers claimed that administration costs

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attributed to the FMLA were either zero or small.\textsuperscript{20} Finally, 83 percent of respondents said that employee performance was unaffected by the FMLA. In fact, the percentage of employers who reported that the FMLA had a positive impact on employee productivity was three times greater than the percentage who said it had a negative impact.\textsuperscript{21}

A second survey, conducted in 2000, confirmed many of the initial findings from 1996. Most importantly, 84 percent to 90 percent of respondents to the 2000 follow-up said that the FMLA had “no noticeable effect on their business as regard productivity, profitability, and growth.”\textsuperscript{22} The 2000 survey also found that more than 93 percent of employers believed that intermittent leave (the type most often associated with family and medical leave) did not negatively impact their profits.\textsuperscript{23} (This question had not been asked in 1996.) A February 2013 survey of small business owners found overwhelming support for the FMLA. In a poll of more than 500 small business owners, 80 percent supported the law, with 46 percent strongly supporting it.\textsuperscript{24}

\textbf{California Paid Family and Medical Leave}

In 2002, California adopted a state-based paid family leave program, the first of its kind in the United States. Although the federal Family and Medical Leave Act grants employees 12 weeks of job-protected leave, it is unpaid and thus difficult for many employees to use. California passed legislation to allow up to six weeks of paid leave to care for a new child or a sick relative.\textsuperscript{25} The program is funded by a payroll tax and benefits are indexed to inflation. Employees can take six weeks in any 12 month period, and the leave does not have to be continuous.\textsuperscript{26}

Not surprisingly, business groups came out strongly against the family leave program. Prior to its passage, the National Federation of Independent Businesses claimed that the program represented the largest burden to small businesses in decades. “If it becomes law, it will be the biggest financial burden for small businesses in decades, coming at a time when the

\begin{footnotesize}
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\item \textsuperscript{20}Id, xvii.
\item \textsuperscript{21} Id, xviii.
\item \textsuperscript{23} Id.
\item \textsuperscript{24} \textit{Small Businesses Overwhelmingly Support Family Medical Leave Act}, \textit{Small Business Majority} (viewed Feb. 5, 2013), \url{http://bit.ly/12pYXl}.
\item \textsuperscript{25} Cassandra D. Engeman, \textit{Labor Project for Working Families, Ten Years of the California Paid Family Leave Program} 1 (September 2012), \url{http://bit.ly/XXyK5X}.
\end{itemize}
\end{footnotesize}
state’s economy is the most precarious it has been in a quarter center and when Main Street firms are least able to afford it,” said Martyn Hopper, an NFIB spokesperson.27

Most interestingly, the study found that the strongest positive impact was the on the small businesses that the NFIB would be affected the most.

The California Chamber of Commerce, as well as local affiliates, also came out strongly against the bill, suggesting that the program would force businesses to leave California and hurt California workers. “We’re opposed to a lot of bills, but this one is one of the worst,” said Allan Zaremberg, the president of the California Chamber of Commerce. “When you’re the only state in the country with paid family leave and they’ve tried it in 27 other states and it’s failed in each and every one, we see it as a competitive disadvantage in attracting or keeping business here.”28 Despite these claims, evidence drawn from California employers suggests that there have been significant benefits to employers in the wake of California's paid maternity leave policy.

A study by the Center on Economic and Policy Research that was released nine years after implementation found that more than 91 percent of businesses said it had a positive impact or no impact at all on profitability and performance. Most interestingly, the study found the strongest positive impact was on the small businesses that the NFIB claimed would be affected the most. Table 1 summarizes the impact of California’s paid family and medical leave policy on profits, profitability/performance, employee turnover, and employee morale.

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<th>50-99 Employees</th>
<th>More than 100 Employees</th>
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<td>Morale</td>
<td>98.9</td>
<td>95.6</td>
<td>91.5</td>
<td>98.6</td>
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Source: Center for Economic and Policy Research

Unleaded Gasoline

Tetraethyl lead was first used as a gasoline additive in the 1920s in an effort to reduce “knock” within internal combustion engines. By the 1970s, an emerging scientific consensus concluded that leaded gasoline inflicted extremely harmful effects on public health. In 1973, the Environmental Protection Agency released regulations that would gradually reduce the amount of lead in gasoline, the use of which was banned outright in 1986.29

Dow Chemical Co. and Monsanto Co. claimed that the ban of lead would “threaten the jobs of 14 million Americans directly dependent and the 29 million Americans indirectly dependent on the petrochemical industry for employment.”

Despite overwhelming scientific evidence that leaded gasoline posed serious risks to public health, industry groups strenuously opposed the phasing out of lead from gasoline while simultaneously denying that lead was dangerous.30 The president of the Lead Industries Association argued that lead restrictions “make us waste oil every time we make gasoline.”31 The chemical industry also sounded an alarm, suggesting that removing lead from gasoline would jeopardize the jobs of workers who produced tetraethyl lead. Specifically, Dow Chemical Co. and Monsanto Co. claimed that the ban of lead would “threaten the jobs of 14 million Americans directly dependent and the 29 million Americans indirectly dependent on the petrochemical industry for employment.”32

These predictions did not remotely prove accurate. The oil and gas industries have continued to flourish. In recent years, they have repeatedly posted record profits. In the second quarter of 2012, the top five oil companies—BP, Chevron, ConocoPhillips, ExxonMobil, and Shell—made $375 million in profits per day.33 Between 2001 and 2011, these five companies made more than $1 trillion in profits.34 ExxonMobil recently regained its spot as the most valuable corporation on the planet, with a market valuation of more

than $400 billion.\textsuperscript{35} Predicted effects on consumers also were off base. Between 1986 and 2005, average annual gas prices never exceeded $2 per gallon (as adjusted by the Department of Energy to 2005 dollars), suggesting that any additional costs oil and chemical companies might have incurred while generating a lead substitute were not passed along to the consumer.\textsuperscript{36} The health risks of lead are well known. High blood lead levels can cause comas, convulsions, and death. In children, the developmental impacts are particularly harmful, causing “reductions in IQ and attention span, reading and other learning disabilities, hyperactivity, behavior problems, impaired growth, and hearing loss.”\textsuperscript{37} Additionally, the connection between atmospheric lead (which is produced when a car burns leaded gasoline) and high blood lead levels is definitive. The gradual phase-out of leaded gasoline in 1973 followed by its outright ban in 1986 subsequently saw a 77 percent decrease of blood lead levels in the United States.\textsuperscript{38}

That is, for every dollar spent by industry or government to remove lead from gasoline, an additional ten dollars is saved through improved health, reduced crime, and other factors.

High lead exposure is also correlated with high rates of violent crime, and the converse is also true. The phase-out of lead began in the early-1970s. In the early 1990s, when children born after the phase-out began came of age, violent crime rates began decreasing significantly. For instance, they dropped nearly 75 percent in New York City between the early 1990s and 2010. These declines roughly correlated with the reduction in atmospheric lead.\textsuperscript{39}

There are also significant economic benefits derived from removing lead from gasoline. A World Bank report found that the economic benefits associated with phasing out leaded gasoline were 10 times higher than the costs. That is, for every dollar spent by industry or government to remove lead from gasoline, an additional ten dollars is saved through improved health, reduced crime, and other factors.\textsuperscript{40}

\textsuperscript{35} Rodrigo Campos, \textit{Exxon Mobil Overtakes Apple in Market Value}, \textit{REUTERS} (Jan. 25, 2013), \url{http://bit.ly/XUb0dw}.
\textsuperscript{36} \textit{Annual Energy Review}, \textit{ENERGY INFORMATION ADMINISTRATION} (viewed Feb. 8, 2013), \url{http://1.usa.gov/z7cjVV}.
\textsuperscript{37} \textit{Myths and Realities of Phasing Out Lead}, \textit{ALLIANCE TO END CHILDHOOD LEAD POISONING} (viewed February 3, 2013), \url{http://bit.ly/XVz5QY}.
\textsuperscript{38} Id.
\textsuperscript{40} MADGA LOVEI, \textit{THE WORLD BANK, PHASING OUT LEAD FROM GASOLINE: WORLDWIDE EXPERIENCE AND POLICY IMPLICATIONS} xiv (1998), \url{http://bit.ly/11b8yHM}. 

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Tobacco Free Laws

Nearly 200 million Americans live in towns, cities, and states that have passed smoke-free laws that prohibit or severely limit smoking in bars and restaurants. The scientific evidence connecting secondhand smoke to negative health impacts is beyond dispute: it is known to cause lung cancer, heart disease, low birth-weight births, and chronic lung problems. Despite the well-known health risks associated with exposure to second hand smoke, tobacco companies have worked hard, often behind the scenes, to stymie new smoke-free regulations.

That tobacco industry’s pessimistic forecasts on smoking bans “simply had no credibility with the public, which isn’t surprising when you consider our dire predictions in the past rarely came true.”
—Philip Morris marketing executive

Tobacco companies have consistently opposed smoke-free laws. One of the biggest falsehoods spread by Big Tobacco was the “30 Percent Myth.” In the early 1990s, tobacco industry-sponsored surveys reported that the passage of smoke-free laws would reduce bar and restaurant profits by 30 percent. These surveys were circulated throughout communities that were considering smoke-free ordinances.

But chances are that industry knew all along that they were just fear-mongering. In a 1994 meeting, a Philip Morris executive acknowledged that the economic studies the industry was pushing were flimsy. David Laufer, the marketing and sales director for Philip Morris, noted that “economic arguments often used by the [tobacco] industry to scare off smoking ban activity were no longer working, if indeed they ever did. These arguments simply had no credibility with the public, which isn’t surprising when you consider our dire predictions in the past rarely came true.”

Despite claims made by Big Tobacco, smoke-free laws have been a universal success for bars and restaurants across the United States. Dozens of studies have found that smoke-

44 David Laufer Statement at CAC Presentation #4 on July 8, 1994, PHILIP MORRIS USA, (viewed Feb 1, 2013), http://bit.ly/UUPU1L.
free laws have resulted in positive economic outcomes for the businesses they impact most: bars and restaurants. One study published in the *Journal of the American Medical Association* found that passage of smoke-free ordinances in three states and six cities found no adverse impact on hotel and tourism revenues. Another study found that in the first 15 cities to enact smoke-free restaurant laws, there was no significant impact on the percentage of sales conducted by smoke-free restaurants versus their unregulated peers.

Tobacco companies have not only cried foul at the prospect of regulation, but they have also funded a number of tobacco-related studies that inevitably confirm industry’s point of view. An analysis of studies conducted on the impact of smoke-free laws found that 94 percent of studies funded by tobacco companies and their allies found that smoke-free laws had a negative impact on business. However, not one independent study found a negative impact.

### The CARD Act

In 2009, Congress passed and President Obama signed the Credit Card Accountability Responsibility and Disclosure Act (the CARD Act). Designed to protect consumers from unfair credit card company policies, the CARD Act regulates interest rates, fees, and disclosure rules. Despite its innocuous provisions, the American Bankers Association (ABA), which represents the nation’s largest banks, opposed the CARD Act on the grounds that it would hurt consumers and small businesses. The ABA argued that the CARD Act would “have a dramatic impact on the ability of consumers, small businesses, students, and others to get credit at a time when our economy can least afford such constraints.”

However, a study by the Center for Responsible Lending found that the CARD Act ended up being highly beneficial for both individual consumers and for small businesses. The Center found consumers’ access to credit was not reduced. More importantly, because a majority of small businesses file their taxes as individuals, the impact of these regulations was no

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51 Id.
different for small businesses than individuals.\textsuperscript{52} Regulations implemented in the wake of the passage of the CARD Act have reduced costs on consumers and businesses that file as individuals by closing the gap between advertised and actual interest rates.\textsuperscript{53} According to the study, nearly $12.1 billion in obscure annual charges were made transparent in credit card offers.\textsuperscript{54} In fact, price transparency will likely lead to lower costs by “increasing competition and making it harder for issuers to manipulate or arbitrarily raise prices.”\textsuperscript{55}

Small businesses support the CARD Act. A recent survey found that more than 95 percent of small businesses polled favored extending the CARD Act to cover business credit cards in addition to the changes already made to personal credit cards.\textsuperscript{56}

\textbf{Conclusion}

History provides a useful perspective on industry’s routine claims that rules to ensure public safety and fair play will wreak havoc on the economy. Lead was removed from gasoline nearly 40 years ago, but the sky didn’t fall.

The Family and Medical Leave Act has been in effect for 20 years and more than 100 million workers have taken advantage of its provisions without bringing the country to its knees.\textsuperscript{57} Paid sick leave and paid family leave in California has enabled workers to take time off to care for themselves or close family members while often benefitting the business community. The CARD Act regulates the nation’s biggest banks while increasing credit card transparency and reducing costs for small businesses.

Combined, these regulations covered millions of businesses and protected hundreds of millions of consumers. Yet, despite some outrageous claims by the business community and its allies, the impact of these regulations was often neutral and often positive.

Still, industry persists. Just this month, the National Association of Manufacturers claimed that a proposed rule to protect workers who are exposed to silica particles would cost

\textsuperscript{54} \textit{Id}, 2.
\textsuperscript{55} \textit{Id}, 4.
\textsuperscript{57} \textit{The Family and Medical Leave Act Turns 20}, NATIONAL PARTNERSHIP FOR WOMEN AND FAMILIES (viewed Feb. 4, 2013), http://bit.ly/WK6EJG.
industry billions of dollars in additional costs.\textsuperscript{58} Using history as their guide, legislators and regulators would be wise to greet claims with extreme skepticism.

\textsuperscript{58} Nell Greenfieldnoyce, \textit{Silica Rules Delayed while Workers Face Health Risks}, NPR (Feb. 7, 2013), http://npr/VFDLuL.