Regulatory Reform in South Carolina:
Opportunities and Challenges in the Palmetto State

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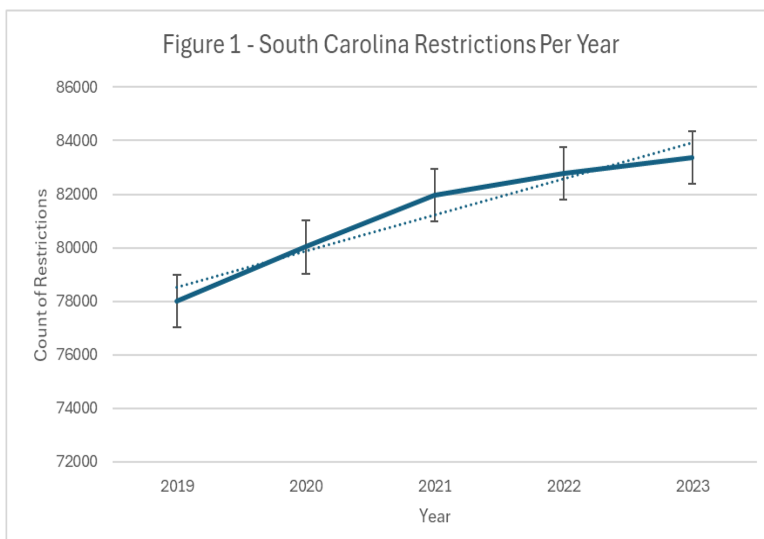
I. Introduction

South Carolina's economy has grown substantially in recent years. Indeed, between 2018 and 2023, our state enjoyed annual GDP growth of 2.5 percent.[3] Population growth has driven much of this expansion, as South Carolina's weather and political climate attract people and businesses from other states. We also have the sixth lowest corporate tax rate nationally.[4]

Perhaps surprisingly, one factor holding back our economy is a complicated and often outdated regulatory structure that restricts what individuals, entrepreneurs, and businesses in our state can and cannot do. Based on information gathered by the State RegData project, a first-of-its-kind inventory of state regulations, South Carolina had 83,372 regulatory restrictions on the books in 2023. Regulatory restrictions are terms within the regulatory code that create legal obligations or prohibitions, such as the words "shall" and "must." While some of these regulations protect public health, many limit innovation and competition in the marketplace.

Out of the 50 states, South Carolina has the 36th most restrictions, but our state's regulatory restrictions are among the most complex in the country and have grown in number by more than six percent since 2019. See Figure 1.



Some of the most burdensome regulatory restrictions concern occupational licensing, which dictate who can and cannot operate particular businesses or hold particular jobs. Indeed, South

[1] Mercatus Center at George Mason University and Hoover Institution at Stanford University
[2] Hayek Center, Clemson University
[3] U..S. Bureau of Economic Analysis, "SASUMMARY State annual summary statistics: personal income, GDP, consumer spending, price indexes, and employment" (accessed Friday, December 20, 2024).
[4] Tax Foundation. "2024 State Business Tax Climate Index." https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/.

Carolina's Department of Labor, Licensing, and Regulation spans 43 different licensing boards and restricts hundreds of occupations.

II. Consequences of Regulatory Accumulation

Regulatory accumulation refers to the continuous and perhaps unintentional growth of regulations over time. Without a systematic approach to review and remove outdated or redundant regulations, the buildup of government interventions has significant effects on businesses and households.

Business Effects

The downsides of regulatory accumulation are well-documented and significant. In a landmark study, Coffey et al. (2020) showed that total regulatory accumulation slows national economic growth by nearly one percentage point annually. Specifically, the study found that the buildup of more and more federal regulations over time distorted business investment decisions—which are the drivers of innovation and productivity growth. This seemingly small annual reduction has large implications. The slower economic growth associated with regulatory accumulation resulted in a national economy that was $4 trillion smaller in 2012 than it could have been without such regulatory accumulation.[5] This translates to a loss in real income of approximately $13,000 for every American.[6] A similar study by Dawson and Seater (2013) estimated the effect to be even larger, finding that regulatory accumulation slowed U.S. economic growth by as much as 2 percentage points annually.

Additional research shows that regulatory accumulation disproportionately burdens small businesses—including the startups that are often the fountainheads of innovation—and that the negative effect of each new regulation grows larger as the stock of regulation grows larger.[7] Regulatory burdens can prevent individuals from entering the workforce or starting new businesses, particularly in underserved communities. A similar effect is mirrored in the dynamics of businesses: large firms often have the resources to manage regulatory compliance costs, but small businesses are less equipped to absorb these expenses. This creates an uneven playing field, where small businesses face significant barriers to entry or expansion due to regulatory costs.

Household Effects

While regulation significantly affects business, regulation also has direct impacts on American households—especially households with lower incomes. By creating barriers that limit the ability of new individuals or companies to enter a market, regulatory accumulation can raise prices , slow wage growth, and diminish economic opportunities for low-income workers.

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[5] Patrick A. McLaughlin. "What If the US Regulatory Burden Were Its Own Country?" (April 2016), https://www.mercatus.org/research/data-visualizations/what-if-us-regulatory-burden-were-its-own-country.
[6] Coffey, Bentley, Patrick A McLaughlin, and Pietro Peretto. "The Cumulative Cost of Regulations." Review of Economic Dynamics 38 (2020): 1–21. https://doi.org/10.1016/j.red.2020.03.004.
[7] Chambers, Dustin, Patrick A McLaughlin, and Tyler Richards. "Regulation, Entrepreneurship, and Firm Size." Journal of Regulatory Economics 61, no. 2 (2022): 108–34. https://doi.org/10.1007/s11149-022-09446-7.

Regulation typically increases the production costs of goods, and these costs are passed on to the consumer in the form of higher prices. Chambers et al. (2017) combine data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the RegData database and find that a 10 percent increase in total regulation leads to a nearly 1 percent increase in consumer prices. Furthermore, they find that the poorest income groups experience the highest proportional increases in the prices they pay. Low-income households tend to spend a greater portion of their incomes on necessities such as utilities, food, and healthcare; unfortunately, these goods also tend to be more regulated than other goods. It is not surprising, then, that as regulation grows, poverty rates tend to rise.[8] Regulatory accumulation can also contribute to income inequality as wage growth shifts from low-income workers to compliance-related workers such as managers, lawyers, and accountants.[9]

III. Benefits of Regulatory Reform

Several states have already undertaken regulatory reforms to unleash the full potential of their economies. Some of the most effect approaches include the following:

1. ***Targeted Red Tape Reductions*** involve developing a quantitative measurement of accumulated regulation and then setting an explicit target for reduction relative to the initial baseline;

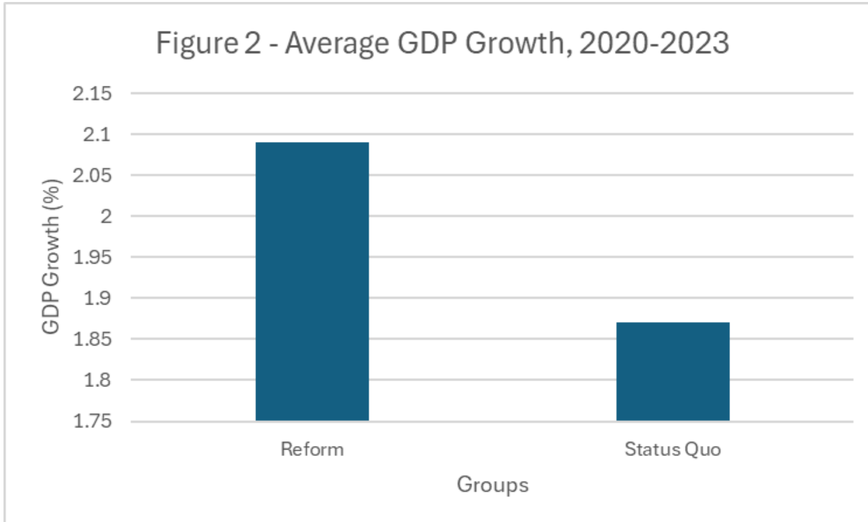
2. ***Regulatory Budgets*** cap the number of regulations the state can have at one time with a target lower than the current stock of regulations. This can be done by setting a goal for a percentage to be cut, establishing a "one in, two out" rule, or monetizing the costs of regulations so that new regulatory costs are offset by eliminating existing regulatory costs;

3. ***Regulatory Sunsets*** require that all regulations be removed after a period of time unless explicitly renewed by the legislature. This approach, which South Carolina embraced until a 1998 repeal of the Sunset Act, creates an implicit periodic review of regulatory restrictions. If the regulation is providing the intended benefit, it doesn't need to be cut. If the regulation is ineffective or burdensome, it is eliminated.

A basic comparison between states that have reduced their regulatory burden by at least five percent ("Reform States") with those that have not ("Status Quo States"). From 2020 to 2023 (i.e., the time period covered by State RegData), the Reform States economic growth rates performed substantially better than the Status Quo States. Figure 2 compares the average growth rates for the two groups. Reform States experienced average annual growth of 2.09 percent, while Status Quo States grew at 1.87 percent on average. For growth rates, a difference of 0.22 percentage points is

[8] Bailey, James B, Diana W Thomas, and Joseph R Anderson. "Regressive Effects of Regulation on Wages." Public Choice 180, no. 1/2 (2019): 91–103. https://doi.org/10.1007/s11127-018-0517-5.
[9] Choudhury, Sanchari. "The Causal Effect of Regulation on Income Inequality across the U.S. States." European Journal of Political Economy 80 (2023): 102471-. https://doi.org/10.1016/j.ejpoleco.2023.102471.

significant. If that difference holds for a twenty-year period, the faster growing group would have grown 5.25 percent more than the slower group – essentially gaining nearly three entire years of economic growth relative to the slower growing group.



Idaho presents a good example of the benefits of regulatory reform. In 2020, the state implemented a "zero-based regulation" policy, which required all state agencies to review all of their regulations once every five years.[10] To keep them, the agency must demonstrate that the regulation is necessary and that the least restrictive alternative has been chosen. Since adoption of this policy, Idaho has been one of the fastest growing economies in the country, with approximately 13 percent real GDP growth over three years.[11] During that period, South Carolina's economy grew by 9 percent.

IV. Regulatory Reform in South Carolina

Legislative efforts are currently underway to reduce the number of regulatory requirements in South Carolina by 25 percent, largely by instituting a one regulation in, two regulations out mechanism. If passed, these reforms are likely to generate sizable economic impacts. Coffey and McLaughlin (2021), in their study of British Columbia's regulatory reform, found that cutting red tape by 36 percent boosted real GDP growth by roughly 1 percentage point annually. Assuming a linear relationship between regulatory reduction and GDP growth, a 25 percent reduction in regulatory requirements could boost real GDP growth by 0.7 percentage points annually. Adding this to South Carolina's 2.5 percent compound annual growth since 2018, regulatory reform could allow our state's economy to expand by an additional $10.273 billion over five years and $23.648 billion over ten years.

The economic boost could be even greater depending on where the regulatory cuts are made and the extent to which they increase household incomes, stimulate investment, increase innovation, and foster market competition. Moreover, the state's population growth could accelerate if

[10] Lawrence Denney and Brad Little. "Executive Order No. 2020-01: Zero-Based Regulation" (January 2020), https://gov.idaho.gov/wp-content/uploads/2020/01/eo-2020-01.pdf.
[11] USA Facts. "Economy of Idaho" (August 2023), https://usafacts.org/topics/economy/state/idaho/.

out-of-state businesses view the regulatory climate more favorably. While an across-the-board approach will generate economic gains, not all industries face the same regulatory burden. Hence, regulatory reforms in the most intensely regulated sectors of South Carolina's economy are likely to have the largest impacts.

Health Care

Healthcare accounts for $20 billion in GDP and nearly 270k jobs in South Carolina.[12] Prisma Health and Spartanburg Regional both rank in the top ten for the state's employers. In spite of some progress—including the repeal of some certificate of need (CON) requirements and telehealth restrictions— the State RegData project shows regulatory restrictions grew 3.2 percent in the healthcare sector and 8.7 percent in the social assistance sector from 2020-2023.

Licensing for healthcare professionals remains a huge barrier in attracting talent. Physicians wishing to practice medicine must be relicensed in the state, as SC does not recognize out of state medical licenses. In addition to this, arbitrary limits of the authority of Advanced Practice Registered Nurses (APRNs), lingering CON requirements, and mandating preexisting relationships for telehealth all disproportionately harm low income and rural South Carolinians.

Fortunately, proven solutions exist. South Carolina could join the 40 states in the Interstate Medical Licensure Compact, grant APRNs further authority like 27 states, adopt universal licensure recognition, and ease telehealth restrictions. Pursuing any of these reforms would lower healthcare costs, expand access, and attract medical professionals to the state.

Occupational Licensing

The Institute of Justice reports that approximately 1 out of every 5 workers in South Carolina must hold an occupational license to do their jobs, with the average license for low- and moderate-income jobs in South Carolina requiring 428 days of education and experience. This burden leads to 17,000 fewer jobs and an estimated loss of up to $1.57 billion across the state.[13] South Carolina's occupational licensing ranks 20th across the United States for the average burden across licensures.

Occupational licensing within South Carolina is most burdensome on low-income South Carolinians and small-scale entrepreneurs. Existing economic research demonstrates that occupational licensing raises prices by as much as 16 percent and reduces employment by up to 27 percent for jobs requiring licensure.[14] With the rising costs of obtaining a license and the time needed to obtain

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[12] IBISWorld. "South Carolina Economic Overview" (2024), https://www.ibisworld.com/united-states/economic -profiles/south-carolina/.
[13] Institute for Justice. "Occupational Licensing in South Carolina," https://ij.org/issues/economic-liberty/ occupational-licensing/south-carolina/.
[14] Edward Timmons, Conor Norris, and Noah Trudeau. "A Snapshot of Occupational Licensing in South Carolina" (October 2023), https://csorwvu.com/wp-content/uploads/2023/11/A-Snapshot-of-Occupational-Licensing-in-South-Carolina1.pdf

one, it has become increasingly difficult for low-income individuals to obtain access to jobs requiring an occupational license, relegating these individuals to lower-income professions or informal employment.[15]

South Carolina has several straightforward options for reducing the burdens of occupational licensing requirements. Specifically, we could join the 48 states that do not require a separate license for specialty residential contractors. We could also join the 47-state majority that does not license subsurface sewage cleaners.[16] Indeed, *any* licensing requirement that does not have a direct connection to service quality or public health is likely generating more costs than benefits. Examples include professional wrestler, shampooer, and travel guide, all of which require a license in South Carolina. Reducing the overall quantity of occupational licensing would lower costs, reduce barriers to entry for small-scale businesses, and increase wages, among other benefits.

V. Conclusion

South Carolina has an opportunity to harness its economic potential by reducing regulatory burdens. As demonstrated by the experiences of British Columbia, Idaho, and other states that have begun cutting red tape, systematic regulatory reform is associated with GDP growth, increased innovation, job growth, and enhances competitiveness. By adopting a regulatory reduction target over the next three years, South Carolina could unlock billions of dollars in additional economic output and position itself as a leader in business innovation and economic dynamism. Even a modest cut of 10 percent could yield substantial benefits, while deeper reforms that achieve red tape reductions of 25 percent or greater could transform South Carolina into an even greater hub for innovation, investment, and entrepreneurship.

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[15] "Occupational Licensing: A Framework for Policymakers" (July 2015), Department of the Treasury Office of Economic Policy, Council of Economic Advisers, & Department of Labor, https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf.
[16] Institute for Justice. "South Carolina Occupational Licensing" (2022), https://ij.org/report/license-to-work-3/ltw-state-profile/south%20carolina/.