



# BUCKEYE POLICY BRIEF

## A SANDBOX FOR EVERYTHING

A UNIVERSAL APPROACH  
TO HELP INNOVATORS

BY LOGAN KOLAS  
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### Introduction

More than 155,000 regulations<sup>1</sup> have strangled Ohio in bureaucratic red tape. Recent policy reforms<sup>2</sup> have admirably helped reduce those burdens and change the narrative by committing to cut the state's regulatory restrictions by 30 percent by 2025.<sup>3</sup> That serious commitment has shown the rest of the country how to enhance economic freedom and make a regulatory code more efficient and competitive. But more work remains to be done, and a sensible next step would be to expand Ohio's "regulatory sandbox" to include all industries and make it more enticing to applicants.

### State Sandbox Shortcomings

Regulatory sandboxes allow participating entrepreneurs to experiment and temporarily test their products or services under regulatory supervision. Inside the sandbox, regulators push a "pause button" on burdensome restrictions that would otherwise inhibit participant innovation. Unfortunately, despite their benefits, most state-level sandboxes have not proven attractive enough. Of the 20 sandboxes nationwide, only five have garnered any participants,<sup>4</sup> and Ohio's financial technology sandbox has yet to accept a single applicant. Reasons for the lackluster participation rate across the country are legion.

First, regulatory sandboxes only pause state-level regulation, but because most of America's regulatory burden is federal, state sandboxes offer an inherently limited reprieve, which makes them less attractive. Second, most states have taken an industry-specific approach to sandboxes instead

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<sup>1</sup> Joint Committee on Agency Rule Review, **Regulatory Restrictions Inventory Summation Report**, June 15, 2022.

<sup>2</sup> Rea S. Hederman, Jr., **Ohio is Model for Regulatory Reform**, RealClearPolicy, September 18, 2023.

<sup>3</sup> **Ohio Senate Bill 9**, 134<sup>th</sup> Ohio General Assembly.

<sup>4</sup> Ryan Nabil, **How Regulatory Sandbox Programs Can Promote Technological Innovation and Consumer Welfare**, Competitive Enterprise Institute, August 17, 2022; and Eric Peterson, **Regulatory Sandboxes: Where Innovation Happens**, Pelican Institute for Public Policy, March 2022, p. 6.

of a broader, industry-agnostic approach. Industries as diverse as agriculture, financial technology, drones, insurance, and legal services all enjoy narrowly constructed regulatory sandboxes in various states, but only Utah and Arizona have built sandboxes open to any entrepreneur seeking regulatory relief.<sup>5</sup> That narrow construction precludes would-be applicants from other industries. Third, some states (*e.g.*, Wyoming) require participants to demonstrate a physical presence in the state to be sandbox-eligible. Ohio has avoided that mistake by also allowing applicants with a virtual presence here to participate. Fourth, states almost universally limit the duration of sandbox participation, typically for just two years.<sup>6</sup> This approach encourages agencies to reexamine and amend regulatory codes, but it also creates uncertainty as the state may change relevant rules after participants leave the sandbox, which may then require costly adjustments. Finally, although most states already allow sandbox reciprocity with other state sandboxes, that horizontal exchange excludes collaboration with federal sandboxes at the Consumer Financial Protection Bureau (CFPB). Expanding reciprocity between state and federal sandboxes—which has never been tried—would significantly increase incentives for regulated industry entrepreneurs and innovators to participate in state sandbox programs.<sup>7</sup>

### How To Improve Ohio's Sandbox

Ohio's regulatory sandbox for the financial technology field gets a lot right, but improvements and expansions to other industries must be made to boost participation. Several reasonable targets look attainable. First, Ohio's sandbox, ideally, should be universal and open to innovators across all regulated sectors, including agriculture, drone technology, insurance, medicine, and legal services. Short of a universal sandbox, Ohio could create the nation's first sandbox for artificial intelligence (AI) to help resolve burgeoning conflicts between AI innovation and old-school regulatory codes.<sup>8</sup> Second, Ohio should replace the current 24-month sandbox participation period with indefinite participation.<sup>9</sup> This extension will help attract participants otherwise worried that their two years in the sandbox will expire before the necessary regulatory changes are adopted. And finally, valuable state-to-state sandbox reciprocity provisions help, but Ohio should explore how to coordinate with federal sandboxes run by the CFPB<sup>10</sup> and, as the Competitive Enterprise Institute's Ryan Nabil recommends, Ohio should adopt reciprocity provisions such that any Ohio sandbox participant will be automatically enrolled in CFPB sandbox programs.<sup>11</sup>

<sup>5</sup> Caden Rosenbaum, **U.S. Congress Follows States' Lead on Sandboxes**, Libertas Institute, May 16, 2022.

<sup>6</sup> Ryan Nabil, **How Regulatory Sandbox Programs Can Promote Technological Innovation and Consumer Welfare**, Competitive Enterprise Institute, August 17, 2022.

<sup>7</sup> *Ibid.*

<sup>8</sup> Will Rinehart, **Silicon Innovation is Colliding with Jurisdictional Steel**, The Exformation Newsletter, August 7, 2023.

<sup>9</sup> **Welcome to the Sandbox**, Ohio Department of Commerce (Last visited January 4, 2023).

<sup>10</sup> Ryan Nabil, **How Regulatory Sandbox Programs Can Promote Technological Innovation and Consumer Welfare**, Competitive Enterprise Institute, August 17, 2022.

<sup>11</sup> *Ibid.*

## **Conclusion**

Regulatory reforms have helped Ohio reduce some of its restrictive red-tape, but state policymakers can do more. For starters, Ohio should boost participation in its regulatory sandbox by making eligibility universal across all regulated industries. New technology and innovation do not neatly fit into regulatory categories, and innovators in all fields should be encouraged to experiment safely without the regulatory costs and burdens that tend to stifle development. Sandbox participation timeframes should be extended significantly, and Ohio should lead the way in creating a state-to-federal sandbox reciprocity program with federal regulators. Ohio's regulatory reforms have proven successful, and those successes offer policymakers a path for even more regulatory improvements.

### **About the Author**

**Logan Kolas** is an economic policy analyst at The Buckeye Institute where he researches and writes about the impact of state and federal policies on peoples' lives and on the economy. He is a native of Cincinnati and throughout his career has focused on researching Ohio-related policies. He holds a Master of Science in applied economics from the University of Maryland.



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