

“Regulatory Impediments to Job Creation”

Testimony of

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United States House of Representatives**

**The Honorable Darrell Issa, Chairman
The Honorable Elijah Cummings, Ranking Member**

Chairman Issa and Ranking Member Cummings, thank you for inviting me to testify today. My name is Michael Fredrich, President of MCM Composites, LLC (MCM) located in Manitowoc, Wisconsin. MCM Composites is a privately held company with 60 non-union employees. We are located on the Lake Michigan shoreline 50 miles north of Milwaukee. MCM is a custom thermoset molder of parts ranging from handles for high-end cookware to emergency oxygen system containers for the Boeing 787 (the Boeing 787 is the first composite commercial aircraft). A thermoset composite is a type of plastic which has physical properties which are required in applications that require resistance to heat, exposure to hydrocarbons, electrical conductivity, and compressive force.

Economic Gravity

Gravitational force is omnipresent. It goes virtually unnoticed but over time it will compress your spine. Government regulations act on the economy much the same as gravitational force acts on an object -- it burdens our economic system and eventually will compress our economy.

Estimates of the cost of federal regulations range from \$ 1 trillion (Heritage Foundation) to \$1.75 trillion (Small Business Administration) per year. This represents around 7% of our annual GDP. Burdensome regulations are a stealth tax on every person in this country. The cost of regulation incurred by all businesses is eventually passed on to the consumer and our workforce. Regulatory costs require business owners like me to devote more time and resources to government compliance, which means less capital devoted to investment and job creation.

Macro View

Our country has experienced a steady erosion of manufacturing jobs. Our import of products greatly exceeds our exports. For our country to reverse this trend we must be able to compete globally and this can only be accomplished through productivity and low burden costs. We cannot compete on labor costs. The average hourly wage in China is \$1.36 (BLS 2008) and in India it is \$0.91 (BLS 2005).

The total cost of production labor (hourly wage plus health care, payroll

taxes, unemployment compensation, etc) in China, India, East Asia, and Mexico is only a fraction of the cost in the US. What costs \$30 per hour to produce in the US costs \$15 per hour in East Asia and \$5.00 in Mexico. The only way we can compete -- **and we can compete** -- in the world economy is through higher productivity coupled with lower overhead burden. The current burden includes the compliance costs of federal regulations, and with the threat of additional burden the U.S. is moving entirely in the wrong direction.

A \$1 trillion annual regulatory burden is taking its toll on U.S. competitiveness – on my ability to compete. Fifty federal agencies and 150,000 pages of rules is enough.

Front Line View (of our free market system)

Our company competes in the world economy. We ship product to Germany, Canada, China, Mexico, Dominican Republic, and Puerto Rico. We can compete with manufactures in these countries and within our own country because we provide value --which is not always the lowest price. Our value flows from engineering expertise, investment in capital equipment and a productive workforce -- all coupled with the lowest overhead burden we can achieve. Therein is the issue: anything that increases our burden (costly federal regulations) diminishes our ability to compete by increasing our costs.

The trend is not good. There is an attempt to govern through federal agency regulations initiatives which would never pass Congress.

Currently being considered are regulations that will add to the to the already high regulatory burden placed on private sector businesses, to wit;

Patient Protection and Affordable Care Act

- *1099 requirement and paperwork burden.* Our company deals with approximately 375 different vendors. This year we issued 11 1099 forms. It took 3 hours to assemble the information and type the forms. It would take 2 weeks to prepare 1099's for all of our vendors. This requirement, which had no place whatsoever in the health care bill, will add \$2,400 (80 hrs @ \$30 per hour) to our regulatory burden.

My business will also be required to report employee health care premiums to the government, and eventually prove that it provides government-approved insurance (if we decide, or can continue to afford insurance).

- *Employer Mandates and Regulations Impeding Choice and Affordability.* We offer a high deductible HSA health care plan to our employees. It is a good plan because it introduces market incentives to a system that has been corrupted by a 3rd party payment system. It encourages preventative care by paying 100% (no deductible) for such things as physicals, mammograms, and colonoscopies. The total monthly premium is \$1,050 of which we pay 70% and our employees pay 30%. The thought of an unelected bureaucrat deciding the type of insurance we provide is abhorrent. Undoubtedly our plan will not meet with bureaucratic approval and we will be forced to change, if we can afford to, or drop coverage and pay the fine. We are between Scylla and Charybdis. Either choice will raise our regulatory burden.
- *Medicare Payroll Tax.* Starting in 2013, individuals with incomes over \$200,000 will see their Medicare payroll taxes increase. Most privately owned businesses are structured as Sub-S or LLC corporations. The income of the business is passed to the ownership in the form of a schedule “C” or K-1 and the tax is paid at the individual level. This is a tax increase on small business. It raises our regulatory burden and takes away more of my capital that can be used for investment, pay increases or new jobs.

Injury and Illness Preventative Program--OSHA

This is nothing more than a “prove yourself innocent” plan and it is a waste of time and money. The free market is providing all the necessary incentives. All businesses are required to carry worker’s compensation insurance which covers work related injuries. The cost of this insurance is a function of the number and severity of the claims. Our monthly premium for this insurance is \$4,500. We can get a rebate of up to 40% if we do not have a claim so we have a strong incentive to provide a safe workplace environment which morally we would do regardless of the monetary incentive.

Our company has a safety committee comprised of people working in

every area of our facility. They meet monthly and inspect the plant for potential safety issues. All findings are fixed immediately. We also have a monthly cash incentive payment of up to \$15 per person if we are injury free.

We have a system and it works. It is efficient. We do not need more burdensome regulation to mirror what we are already doing. Engaging my employees in additional government-required activities rather than focusing on their jobs will decrease productivity, and make us less able to compete and win business. Jobs will be lost or not created at MCM Composites, LLC.

EPA Regulation

This agency needs to be regulated. All existing regulations must be reviewed and all pending regulations must be stopped. The potential damage is pervasive so I will focus on one element -- the effect of proposed regulations on the cost of electricity.

The majority of our nation's electricity output is fueled by fossil fuel - coal, oil and natural gas. Unless we move toward terrestrial energy (nuclear power) it will remain so. We can cover every square mile of this country with wind mills and solar panels and it would not meet our energy needs so forget about it. The problem with wind and solar is lack of energy density and no EPA regulation will change that physical reality.

Our company is a large consumer of electricity. Behind labor (12% of our cost structure) and raw material (40%) electricity represents around 7% of our total operating costs. Our monthly bill averages \$22,000.

Most of the electricity we use is generated by a coal-fired power plant. Enhanced EPA regulations increasing the cost of producing electricity using coal will be passed on directly to our company and added to our regulatory burden and make it more difficult for us to compete in the world market. Rising energy costs mean fewer jobs added at MCM Composites, LLC.

Summary

The cost of regulation is cumulative and pervasive. The cost of every product and service we buy includes some regulatory burden. We in turn include this cost in the selling price of our product which must cover our production cost, interest on our debt, and provide a profit. And yes, I can proudly state that our goal is to make the highest profit the free market will allow. If regulatory burden continues to grow we, along with all other private sector companies, will no longer be able to compete in the world market. Jobs will not be created and new businesses will not be formed. You will suffocate the system that has produced everything we enjoy today. It is that simple.

Thank you. I look forward to your questions.