STATUS OF SMALL BUSINESS MANUFACTURING IN THE MIDWEST

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SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT & GOVERNMENT PROGRAMS

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MONDAY, APRIL 28, 2003

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT AND GOVERNMENT PROGRAMS
Washington, D.C.

The Committee met, pursuant to call, at 1:00 p.m., in One St. Peters Centre Boulevard, St. Peters, Missouri, Hon., Todd Akin, [chairman of the committee] presiding.

Chairman AKIN. We are ready to go.

The Small Business Subcommittee will be called to order and, as we have done in Washington, D.C., as I have tried to run these meetings, we try to bring them in on time, so I would ask everybody to help out here. We are scheduling about an hour here for the meeting, and so if all of us stick to the times that have been indicated ahead of time, I think it will help us to get through things, make it efficient and hopefully accomplish our objectives as well.

It is a pleasure to join all of you, but before I begin, I would like to recognize some key members of our Small Business Administration that we have in our audience today. Mr. Sam Jones, Region VII Administrator. Could you put your hand up, please. I do not see Sam here. He is delayed. Okay. Wendell Bailey. Let us see if Wendell is here. He was here this morning. He may be dropping in later. Office of Advocacy for Alan Richter, Small Business Development. Alan is over here. Thank you, Alan, for being here again this afternoon. We had a Manufacturing meeting earlier.

I am happy to announce that I am going to be dropping a bill next week which will hopefully make all of our jobs easier. It is House Resolution 1772. It is the Advocacy Improvement Bill. It will enable the Small Business Administration, Office of Advocacy, to work that much harder to help small businesses. What this is, from everything I have been able to determine, it is the most popular part of the SBA, and that a law that says that the various agencies of federal government have to consider the impact of any particular changes they make on small business or business in general and, if they do not, what is the teeth? Well, the teeth is this Office of Advocacy, and we are strengthening that office so that you have an advocate to go against large federal agencies that are passing laws or rules and regulations which adversely affect your industry in ways that are unnecessary.

That is really why we are here today, to see what we can do to help small businesses. I know how hard it is in the environment the way it is, and we are very interested in your comments, try and help do what we can in our partnership at the federal level. It is the small business owners and skilled laborers here, the machinists, the engineers that make up the life blood of the nation's economy. In the United States, manufacturing accounts for 16 percent of our nation's economic output. Makes up 81 percent of our exports. It counts for 30 percent of our national economic growth, and over 60 percent of all research and development in this country is sparked by manufacturing.

Missouri is no exception. In fact, we are the only one of a few states who can boast our manufactured contributions to the defense industry is a top component of our gross state product. I would like to use today as a launching pad to ensure Missouri and the entire midwestern United States is assured of an upward trend for its manufacturing base. It is no secret that I am a strong proponent of the President's tax cuts, an even stronger advocate for lower taxes for the sake of manufacturing growth. These changes alone, however, those critical, are not enough. Missouri has lost nearly 10 percent of its manufacturing jobs over the last five years. The information we share here could help us more firm grasp some of the issues and hopefully reverse some of these situations.

[Mr. Akin's statement may be found in the appendix.]

With us today we have some people who have a very intimate knowledge of this situation. Our panelists have been kind enough to give their time and knowledge. It is through this knowledge that we, God willing, will arrive at a prosperous market for our manufacturers and our communities.

In addition, I would like to introduce my very good friend and colleague, the former congressman from a good part of this district and, though Ken Hulshof is not on the Small Business Committee, he is on a committee perhaps of even more importance to small business which is the powerful Ways and Means Committee in the House. They are looking at quite a number of different measures which can all have a tremendously positive impact on business and industry in general, and we are so thankful for Ken's experience, for his good work representing the western part of St. Charles in the past. Delighted to have you, Ken, and if you have a statement.

Mr. HULSHOF. I do, Mr. Chairman. Thank you very much and I especially appreciate the invitation to be a participant, even though, as you mentioned, I'm not on the Small Business Committee. I look around the room. Your predecessor, our good friend, now U.S. Senator Jim Talent, once convened a hearing in this same venue and some ideas came from that hearing that are now the law of the land. And so I'm encouraged, also knowing your advocacy for small business, that perhaps some of the things that will be discussed today can also bear fruit in Washington, D.C.

As you know, you and I share St. Charles County. St. Louis and the Highway 4061 Corridor are still in the 9th Congressional District. But we also have had some sobering news as far as the manufacturing sector. You point out some of the success stories and yet I think probably our panelists are going to talk about some of the challenges, especially that the State of Missouri has faced regarding manufacturing and the loss of our manufacturing base. Just late last week—as you know, we have been on recess—in Kirksville, Missouri, which is in my district near the Iowa border, Standard Register just announced that they were going to be shutting down in 60 days. They employ about 250 men and women who have been there many years. Again, this is real tough when you are the largest manufacturer in the area to shutter your doors. I agree with you completely that when we return tomorrow and we begin to take up our work again that we should heed the President's call for quick passage of an economic growth package.

As we have talked about, the ails of the manufacturing mirror the problems facing our economy as a whole. We have weathered the economic shock, going back to September 11 of 2001 and yet, we have got a lot of work ahead of us as far as trying to revive some economic growth opportunities, whether that is accelerating the income tax rate or trying to reduce the taxation and lowering the cost of capital for businesses. Maybe that is some additional expensing provisions. I look forward to hearing from our panelists if, either in your written testimony or through questions later on, as to how some of these specific tax items might benefit you and your companies.

So again, I'm encouraged by the fact that we have got just some strong voices here on behalf of small business and, again, my thanks to you in including me in this important hearing.

Chairman AKIN. It is a pleasure, Ken.

I think, in order to keep things moving along here, I'm going to go ahead and introduce our first panel. My first panel is on the left and the second one is on the right. Total of five witnesses. And first of all, leading off is going to be Dan Mehan. He's President and CEO of Missouri Chamber of Commerce. And Ken, you mentioned that there was some bad news in Missouri. I think Dan may refer to that in his testimony. Dan, would you please lead off for us.

STATEMENT OF DAN MEHAN, PRESIDENT AND CEO, MISSOURI CHAMBER OF COMMERCE

Mr. MEHAN. Thank you very much, Mr. Chairman. It is a pleasure to be before you and with our colleagues of both sides of the microphone to talk about what needs to be done to generate economic activity and prosperity.

I have a Missouri-specific statement really. I know you both deal with issues that impact the entire country, but I wanted to call your attention, as Missourians, to a dramatic statistic or two that we released in the last two weeks. This chart to my right shows that Missouri leads the nation in job loss in calendar 2002. These statistics are directly from the Bureau of Labor Statistics at the Department of Labor, U.S. Department of Labor. It shows that we lost 77,700 jobs in calendar '02.

Chairman AKIN. Mr. Mehan, this is something that you just mentioned to me earlier this morning. It didn't quite sink in. I had heard this before, but it didn't quite sink in. You're not talking about per capita jobs, are you? You're talking about state by state, just raw number of jobs, that we lead all of the 50 states in having lost more jobs, even than, for instance, California. Is that correct?

Mr. MEHAN. That is correct. This is raw data. These are 77,700 people that lost their jobs.

Chairman AKIN. And no other state in the U.S. has lost as many jobs as we have.

Mr. MEHAN. Not even close unfortunately. If you notice on the chart and in the folder that is been distributed, it is in the left side of the folder, it may be easier to read, but the closest one behind us is Ohio at 62,300 jobs lost. That is obviously over 15,000 people behind us or we are ahead of them in job loss by 15,000 people.

Chairman AKIN. And yet they have twice residents in Ohio as we do.

Mr. MEHAN. Ohio has twice the population of Missouri.

Chairman AKIN. That is incredible. Thank you. Please go.

Mr. MEHAN. If you look on down the line, the startling thing—first of all, it is startling that almost 80,000 people lost their jobs. Secondly, that we are that far in the lead in this distinction. And I'll try to do this without knocking the chart down. But if you look at how we compare with our neighboring states, Missouri is bordered by eight states.

The closest state in job loss is Oklahoma with 19,700. So if you look at the region, the midwest region, we are ahead of the closest competitor in job loss by almost 58,000 people. Now, that is astounding and, as you both know, it is as easy as walking across the street to get to another state—in Kansas, for example, on the border. So there's even two states, Arkansas and Tennessee, that have shown gains in job creation.

Now, in Arkansas, one of our favorite subjects, two of them, workers compensation reform and torte reform, have occurred at the state level. I just want to call that to your attention.

Another step to consider is that in Missouri, 70 percent of our jobs or 70 percent of our economic activity is on the borders and, when our neighboring states are beating us at this game, employers and the business community are obviously and naturally going to go to that business environment that is most conducive to them staying in operation.

Chairman AKIN. Mr. Mehan, I think what the chart I'm looking at, what you're telling me is there are eight states that surround Missouri.

Mr. MEHAN. Correct.

Chairman AKIN. I haven't done the math but it looks like on the surface that if you add up all or the jobs that those eight states lost, we have lost more in Missouri than we have when you add up all of them together.

Mr. MEHAN. That is correct, and I have not done the exact math, but it is astounding. I think it is almost double out of the eight states surrounding us, and there are those who have said that this is not that significant because in the '90s we outpaced other states with our job growth. I do not think that is too relevant in 2003 to those 77,000 people that have lost their jobs or their livelihood.

Now, we have, at the Missouri Chamber of Commerce and Industry, have advocated reforms to workers compensation, tort reform in the state of Missouri. Hopefully the legislature won't heed the cry of the spending problem that we have seen and the budget shortfall that we have encountered and saddle the employer community with paying for that budget shortfall. And I think we have made some progress at the state level on that. But obviously, you both have paid attention to what to do about Missouri's budget shortfall.

Just to conclude this presentation on job loss, the fiscal impact to the state of Missouri is significant as well. Seventy seven thousand jobs, using an average of roughly $30,000 as wages, generates $2.26 billion in wages. The lost income tax from that is $74 million. The lost sales tax is $34 million. Other taxes associated with that. The total fiscal impact to the state of Missouri is $126 million. Mr. Chairman, you know from your work in the Missouri legislature that this time of year, what the state would love to—how welcome a message it would be to get $126 million in the state coffers.

There are things under consideration, and I'll be brief. My time is running out. But permanent repeal of the death tax we would encourage. We hear that from our members quite often. That type of tax relief. We had two meetings earlier today about accelerated depreciation. Basically, it is an access to capital issue to allow especially the manufacturing sector that has experienced up to 40 percent of that job loss to retool and reinvest in itself and to try to come out of this thing.

One thing I wanted to mention also is the use of health reimbursement accounts which recently have been allowed by the IRS to be tax deductible, tax free. The use of HRAs to help finance first dollar health care costs combined with a high deductible policy. We use that in a program that we run called Missouri Chamber Care. We think it is a market-driven solution. Won't be perfect for all employers, but it will be a source of relief in the quest to find affordable health care and keep those costs stable in the long run. So we encourage that usage of health reimbursement account. Any sort of assistance from Congress to promote that idea or that concept and make that more marketable.

Thank you very much.

[Mr. Mehan's statement may be found in the appendix.]

Chairman AKIN. Could you submit something along the lines explaining that recommendation for the record?

Mr. MEHAN. We would be happy to. Yes. Thank you.

Chairman AKIN. Thank you very much.

Our next panelist will be Sheelah Yawitz, President of Missouri Merchants & Manufacturers Association. Welcome, Sheelah.

STATEMENT OF SHEELAH R. YAWITZ, PRESIDENT, MISSOURI MERCHANTS AND MANUFACTURERS ASSOCIATION

Ms. YAWITZ. Thank you, sir. Thank you, Mr. Chairman, and we certainly appreciate the opportunity of being here. Our organization represents small and medium size businesses throughout the state of Missouri and basically we work with them on legislative issues. So in preparing for the presentation today, we polled our manufacturers, and I'm not going to go over the statistics which Dan handled so well. I'll get to the point of their responses.

From a large portion of our manufacturers, we heard that a major contributing factor to the loss of manufacturing jobs in Missouri is foreign competition. U.S. manufacturers are faced with workers' comp. costs, health care costs, OSHA, EPA, freight costs, that other countries such as China and Mexico are not faced with on an equal basis. Another member of our organization, Mike Mittler, who is President of Mittler Brothers Tool & Machine, will be addressing that issue so that you can question him about the loss of Missouri jobs and U.S. jobs in general due to foreign competition.

But the other area that every single one of our manufacturers said was priority and a major problem facing them was the increasing costs of health care. And I think it is easiest if I read from one of our members their response. This is the president of a manufacturing company and she says, "We are again looking at a minimum increase of 20 percent and the company can no longer absorb these increases. We may have to reduce coverage to avoid passing increases to employees. Either way, the employees lose and the employers lose." She goes on to say, "What makes the health industry need these ongoing increases? What makes them so different than other businesses?"

If you look at the pendulum, the past 50 years, it used to be 50 years ago, only five decades, which is not that long ago, the consumers paid for 100 percent of their health care costs. Then we came to employers were paying for basically 100 percent or close to that of the health care costs. For the past four years, the average increase has been at least 20 percent per year for four years. It can't be absorbed any more. So now you have employers are saying, we can either pass the costs on to the employees, reduce the benefits or absorb it if we can still compete and stay in business.

Now on the positive side, there are some new tools available to help in controlling and reducing health care costs. One is HRA, Health Reimbursement Arrangements. In 2002, the summer of 2002, the IRS came out with rules specifying what the tax consequences were. So that was a step in the right direction. We are talking about consumer-driven health care where employees start to make choices. HRAs are employer's money. The employer sets aside a specific, the same amount for each employee. Then the employee can choose how they want to spend those monies for health care costs. And those costs are defined by the IRS. So we are not just making up how you can, you know, use those monies.

Now, the employer can also decide, if there's left over monies in the employees' account, to roll them over all or a portion of the money for next year's health expenses and the employer can also choose to say, we are going to set some of that, or a cap thereof or all of it, for retirement expenses. So with these type of options available, HRAs dramatically differ from high deductible accounts. SO they're a very positive tool.

Now, the problem is HRAs and FSAs, that is flexible spending accounts and that is employee money, they both come under the same definition with cafeteria plans as to who is an eligible employee. And the IRS has said, shareholders of sub–S corporations and partners off LLCs can not participate in cafeteria plans. So we are asking you today to do three things.

Number one, change the definition of an eligible employee to include shareholders of sub–S and partners of LLCs. Number two, remove the use it or lose it from the FSA. If an employee has leftover money in the flexible spending account, they lose it. They do not get it back. And number three, for all cafeteria plans, and that is set-aside pre-tax money, allow the employee to make mid-term changes. Right now in cafeteria plans, they can only make a decision January 1 of every year. They can not change it.

So consumer-driven health care will control health care costs. It isn't a fix-all, but it sure is a good tool, and we appreciate the time. We think you can make a difference and make it happen. Thank you.

[Ms. Yawitz's statement may be found in the appendix.]

Chairman AKIN. Thank you very much. I appreciate your testimony and also very specific recommendations that you provided. It sounds exciting.

We are going to go ahead to our second panel and leading off we are going to have Mike Mittler, President of Mittler Brothers Machinery. Thank you, Mike, for joining us today.

STATEMENT OF MIKE MITTLER, PRESIDENT, MITTLER BROTHERS MACHINERY

Mr. MITTLER. Thank you, Mr. Chairman and Congressman Hulshof. As you said, I'm Mike Mittler from St. Peters, Missouri. This is my hometown city hall that we are testifying at today. Welcome and thank you for the opportunity to testify on behalf of my coworkers and the 2,000 member companies of the National Tooling and Machining Association regarding the state of U.S. manufacturing and tooling today.

We feel our industry is under attack. We are faced with a very unfair playing field imposed by our own government, including unfair tariffs, excessive regulations, an overly strong dollar, and unfair competition from China, a communist country.

As you said, I'm President of Mittler Brothers Machine and Tool, and I'm the National Secretary of NTMA. I will be the National Chairman of that organization in 2006. Mittler Brothers is a full service job shop machine shop providing custom precision machining, design, engineering and building of special machines and a proprietary product line of metal cutting and forming equipment for the racing and metal fabrication industry. We are located in Foristell, Missouri. We currently employ 40 people and our products are sold world-wide.

We think that every manufacturing company in the country and in the world does business with our industry. The U.S. tooling and machining industry employs close to 450,000 people nation-wide. We account for shipments of $43 billion. The metal working industry includes machinists, dye makers, mold makers as well as tool and die designers, and we believe, without them, the mass production of manufactured goods would not be possible.

We have already heard the loss of jobs, particularly in Missouri, and the loss of jobs in the country, and so we know that we are losing industry at an alarming rate. Unlike typical down turns of the past when manufacturers simple cut back and waited for recovery, in the current down turn, manufacturers are rapidly relocating outside the U.S. and large numbers of small and mid-sized U.S. manufacturers are closing down permanently due to foreign competition. The resulting loss is a loss of family-sustaining blue collar jobs, it is undermining the U.S. middle class and devastating communities where manufacturing is essential to the local economy.

I think you're aware of the ITC report that tells you the bleak outlook of the tooling and machining industry, and I think it tells a lot about the future of the U.S. economy. We are currently in an over capacity situation, and part of that over capacity is caused by American manufacturers moving offshore to find lower government regulations, lower taxes and cheaper labor. A typical example of that is companies such as Emerson Electric based here in St. Louis have moved almost all their motor manufacturing offshore. As they move offshore, we lose the opportunity to provide them with tooling and machining services that we provide, and the result is also, as demonstrated by Mr. Mehan, is the loss of good paying wages and jobs that go with those, particularly large here in the State of Missouri.

Local tooling companies such as ours have lost from 10 to 50 percent of their employees in the last two years from this lack of work and from these companies moving their manufacturing offshore. And this does not count the number of companies that have closed altogether, again exemplified by the high number of people that have lost their jobs. Foreign companies are becoming more technologically advanced, able to offer significantly lower prices, sometimes as much as 60 percent. We believe our industry could see as many as 50 percent of the shops close their doors in the next couple of years. The NTMA has lost 400 members in the last two years, many of them a result of companies going out of business, simply no longer in existence.

You heard from Sheila earlier about the cost of health care. We have had increases. We echo her comments. We have had increases as high as 25 percent in our company and in our small company with 40 people, we currently spend in excess of $150,000 a year for health insurance costs. That is a very large cost for our small company.

The banking industry we think is part of the problem. Many companies are having their working lines of credit withdrawn due to the loss of profits in our industry, so we think there's a real issue there. Our 1999 National Chairman of NTMA just recently was forced to close his business due to losing his working line of credit. We have been very fortunate to have a strong banking relationship in our company, but only as a result of personally guaranteeing all the loans that the company has.

So not only is it important to the economy but, as you stated earlier, in Missouri, in the St. Louis area particularly, the defense of our nation is very critical and a large amount of these jobs in the local area are defense-related with Boeing as the leading supplier of many of the weapons that you just saw our country strong. We are really against any work of defense prime contractors sending defense work offshore. This practice is going on and is not being monitored by the DOD.

Chairman AKIN. We are starting to get a little close on time. Are there specific things that you'd want to—other than what you just said, that you want to add as recommendations or——.

Mr. MITTLER. Well, I think that stemming the tide of loss of jobs and the unfair competition from China with the fact that they have lower tariffs to bring their product into our country. We have very high tariffs and freight costs to try and export our products worldwide. So that is one particular area that we'd like some help on.

Chairman AKIN. Thank you very much.

Mr. MITTLER. Thank you again for your support of small business and thank you for your support of manufacturing.

[Mr. Mittler's statement may be found in the appendix.]

Chairman AKIN. Thank you very much, Mike, for testifying. And now Mr. Wainwright. Mr. Wainwright is Chairman/CEO of Wainwright Industries but also was—were you the acting president of the National Manufacturers Association, was it last year, Don?

Mr. WAINWRIGHT. Chairman.

Chairman AKIN. Chairman.

Mr. WAINWRIGHT. Of the National Association of Manufacturers.

Chairman AKIN. Thank you.

STATEMENT OF DON WAINWRIGHT, CHAIRMAN AND CEO, WAINWRIGHT INDUSTRIES

Mr. WAINWRIGHT. And thank you for this time, Mr. Chairman and Mr. Hulshof. Thank you very much, Congressman Hulshof.

This is quite an opportunity. I'm the Chairman and CEO of Wainwright Industries here in St. Peters and in the St. Louis region, of course, where I've spent my entire life. So I've seen this area in the manufacturing for 35 years. Wainwright Industries is a subcontractor to larger manufacturers in the aerospace and automotive industries. We supply steel components to those industries. We employ about 200 people in this area of two different plants.

I want to thank you for this opportunity and tell you about the unprecedented challenges that today threaten our competitive leadership in manufacturing, not only in the state of Missouri but in the United States itself. Over the past year and two months, we have seen the weakest manufacturing recover from the recession since the Federal Reserve started keeping tabs on this back in 1919. The data shows that December 2001, manufacturing production has edged up only 1.6 percent, drastically slower than the first 14 months of the six previous recessions and growth in manufacturing has averaged 10.8 percent and other recessions as we came out.

But the weakest of manufacturing is perhaps best reflected in the loss of employment, as we have talked about previously. Manufacturing nation-wide has lost for 32 consecutive months more than 2.1 million in all jobs. From July of 2000 through last December, the overall attrition of manufacturing jobs was 11.3 percent or more than one out of 10, and here in Missouri during that time we have lost 45,300 manufacturing jobs alone or 11.2. Our experience pretty much reflects the national experience.

This is a frightening trend that we can not afford to ignore. Manufacturing is essential to the economic growth and employment opportunities of the state and the nation. During the prosperities of the '90s, manufacturing was the largest contributor to economic growth. Manufacturing accounts for a quarter of the U.S. economic output, 64 percent of exports, 62 percent of the research and development and 27 percent of the growth of this nation. It is the driving force of technology, progress and productivity growth that has made this happen. Indeed, during the late half of the 1990s when the overall economy recorded respectable productivity gains of 2.5 percent a year, manufacturing roared ahead at 4.5 percent a year, almost double that of the rest of the economy.

Loss of manufacturing is particularly critical because we are the ones that have the best jobs and we have a major ripple effect throughout this economy when we do not have those jobs. Manufacturing workers are among the best paid in our country, earning 20 percent more than the average wage and more than 80 percent of them have received health insurance paid by their employers. In addition, manufacturing jobs tend to create and support more employment than other sectors of this economy. Our most conservative estimate suggests that of 16.5 million manufacturing jobs, we support at least 9 million other jobs in the economy. In other words, for every manufacturing job, 1.8 jobs are then created.

It is also essential to emphasize the contribution manufacturing makes to the national security, which was already brought up, a contribution that has been dramatically revisable, of course, in the last few weeks with Iraq. Our ability to deal with the regime of Saddam Hussein and the minimal loss of civilian lives among Iraqis and relatively few casualties among our own troops is based upon the advanced digital, laser and communication technology of our industries. From the advanced fighter planes to the high tech ordnance guidance systems to night vision goggles is all a story of manufacturing's genius at work. Manufacturing is our nation's laboratory of innovation where our most creative people, equipment and breakthroughs in technology and the quest of the breakthrough products and more efficient processes that are the heart of our productivity.

But hundreds of shuttered factories and more than two million lost jobs are very short. We have seen this happen across our country. We have a problem and we have to deal with now. In my view, we face three fundamental policies, challenges that must be met.

One, the economy remains listless and it is uninspiring. First step is getting manufacturing back in high gear with tax breaks. We need tax breaks. The tax reduction proposed by the Bush Administration is a reasonable start. Two, rapidly rising business costs stemming from the general indifference and the burden of government rules and requirements on business are becoming an economic burden on our companies and our workers. For some companies, the cost is simply too much. And three, while manufacturers must contend with steadily rising costs of doing business, unprecedented foreign competition makes it impossible for them to keep pace.

Thank you very much, Mr. Chairman.

[Mr. Wainwright's statement may be found in the appendix.]

Chairman AKIN. Thank you very much, Mr. Wainwright and I appreciate your comments. We have got one more witness. These are actually owners of small businesses on panel two, and we have Len Poli. He's the President of Carter Industries. Len, thank you so much for joining us this afternoon.

STATEMENT OF LEN POLI, BUSINESS MANAGER, M. CARTER INDUSTRIES

Mr. POLI. Thank you, Mr. Chairman. My name is Len Poli. I'm actually the business manager for M. Carter Industries. M. Carter Industries is a small manufacturer of service station and liquid handling equipment for the petroleum industry. We market our products throughout the United States and to about 20 countries outside of the United States and throughout the world.

We made a conscious effort to broaden our marketing scope into the international arena in the early '90s and today that is proven to be a good decision. About 30 percent of our sales are international. This business has a stabilizing effect on our total business because the U.S. market continues to fluctuate. As one of my customers recently commented, if this roller coaster ever gets level and straight again, I'm not certain I'll know how to handle it.

Everything that is involved in a small business over a large business has a cost. Containing these costs is a major part of what I and every manager and owner of small business do every day. Some we have direct control over and some we do not. Component costs for products we can control to a degree. Labor costs we can control, again to a degree. Federal, state, local taxes, regulations, certifications and business insurances we have very little control over or no direct control. All of these have a direct impact on our ability to be competitive in the U.S. and world markets.

At the beginning of this year, we decided that new equipment purchases would be necessary to reduce costs of making certain components. One machine is now on order and will be delivered in June. Another will be ordered later this year. This new equipment is more efficient and provides a cost savings in the components for our products. This first machine is a modest cost of only $40,000. The next will be about four times that. Needless to say, we would appreciate the proposed accelerated write-off for investment in equipment.

Additional savings are projected from changes implemented at the foundries where we have aluminum castings made. However, the costs that we can not control continue to increase. Business insurance continues to rise. Our health insurance premiums increased 15 percent on last renewal. Workers' comp. jumped 20 percent, and just this week we renewed our product liability, product casualty and general liability insurance policies. The product liability increased 67 percent. This sounds high, but it was 83 percent until we increased the deductible to a maximum level. I must add in here that last year's increase was 30 percent.

It is also disturbing to have a $1,050 premium addition to our property policy to cover acts of terrorism. I thought that with the federal government's backing of the insurance industry, I thought this was an unnecessary gouge.

Physician malpractice insurance costs have made headlines but liability insurance is a major problem for every business, whether it is a manufacturer or not. Some of my distributors, my customers in the United States, are forced with a decision of whether to maintain a full fleet or cut back, just so they can maintain the same level of insurance costs.

Many of the federal regulations and certifications that affect us have appeared to be written for larger companies without any tolerances. The EPA sets guidelines that may be appropriate to a company with 500,000 gallons of waste water per day but the same applies to one with 500. OSHA's rule for forklift operations and operators and safety inspections are set if the operation was 24 hours a day, not as we do, 30 minutes every two weeks. No one is against is safety, but common sense certainly has a place. If the garment industry followed this same line, we'd all be wearing the same size suit. Some of us would look okay.

In our industry, the EPA's related certifications restrict the ability of small businesses to compete and strain larger ones. We do not manufacture the vapor recovery fueling equipment that is common in the St. Louis area at your service stations here and in other cities. The certification cost alone for each system is $250,000. That is beyond our budget. Some of the best ideas and inventions have come from small operations such as ours. Research and development is restricted to money, personnel and equipment. Over the years, we have been successful in developing some new products, some of which have been patented. Vapor recovery projects have been shelved because of the exceptional high cost of certification. Currently, we are involved in reducing static electricity.

We export to many countries and only a few do not levy a duty on the products that we ship. This gives our competition unfair advantage. For instance, Turkey has a 15 percent duty on all U.S. products coming in. They buy the same product from the Netherlands without any. Argentina has an 18 percent. In other countries, they're zero.

To add on to something that just—that Mike was talking about. From China, for instance, the duty going into China from our product is 12 percent with a VAT tax of 17 percent while they can ship the same product here with zero.

Thank you very much.

Chairman AKIN. Thank you very much, Len. Appreciate your joining us today. We could have broken things up in a couple of ways, I suppose, and had the industry representatives in a sense, then had the actual owners of businesses. I thought it was better just to go ahead and let each of you make your statement and then proceed with some questions. We have some time, and I would defer to you, Ken, if you'd like to take the first shot at some questions.

Mr. HULSHOF. I appreciate that, Mr. Chairman. I assume for the purpose of the record the entire written statement of the witnesses will be included. Is that right?

Chairman AKIN. It will be included.

Mr. HULSHOF. Let me ask, first of all, Ms. Yawitz or you, Mr. Mehan, the idea of associated health plans. I assume each of you would support or do support associated health plans. Is that right?

Ms. YAWITZ. We have concerns. We do support them, but we have to also look at the history of association type of plans. They weren't called association plans before. They were employer welfare—multiple employer welfare plans. Our concern is a plan would either take in only good risks that leave the not so good risks with where are they going to get coverage or a plan that only attracted the negative risks.

Mr. HULSHOF. Okay.

Ms. YAWITZ. So the more options we have on the table, the better, but I would like to see how this is going to differ from what used to be called the multiple employer welfare plan.

Mr. HULSHOF. Mr. Mehan, I've heard some of those concerns expressed by some providers. What—is there a good response from the Chamber regarding it? Not to put the two of you at odds, but what is a response to the idea that the risk pool is going to be skewed were we to enact associated health plans?

Mr. MEHAN. I agree with what Sheila just said with some other concerns, as well. I think what you'll find and what—when the Missouri Chamber had an association plan in the '90s, what typically happens is they attract a lot of clients, a lot of policies, and they follow a bell-shaped curve of success where people will join and then, over the course of time, you'll find that the better risk pools or better risk employers in there will find other coverage elsewhere or be offered more economical coverage by the insurance industry. So then that pool is left with a higher degree of risk. That is the—typically, it is sometimes referred to as the death spiral, that sort of thing.

Now the other thing that I think needs to be in any reform or any market-driven reform is health care costs have got to be accurately reflected and accurately portrayed to the employees who are using them. My concern or one of our concerns on AHPs is that it does not necessarily involve the employee in that decision. I think employees and users of the program that employers are purchasing have to understand, to put it simply, that this is not just a $10 payment and the rest is borne by the—by someone else. So——

Mr. HULSHOF. Right.

Mr. MEHAN [continuing]. Better data, better utilization of data, can help with that.

Mr. HULSHOF. I appreciate that and certainly, as the Chairman and I and others understand, this is a vexing problem. In fact, the ones having to pay the bills nodding in agreement with you as far as providing health insurance which used to be a standard benefit and yet now is being costed out of the market. And Ms. Yawitz, as you pointed out before and maybe to state it in a different way, as someone in a family, we buy our own life insurance, car insurance, home insurance, and yet we rely upon our employers to provide our health insurance.

Let me shift gears quickly and ask a tax question. I appreciate your indulgence, Mr. Chairman. Actually, Mr. Poli, I pulled out. You said common sense has a place. I think I got that. That is why we are here in Missouri and not in Washington, D.C. That is why we are holding this hearing and the Chairman has convened this hearing here.

Specifically, Mr. Mittler, on this expensing and, Mr. Wainwright, you touched on it briefly, as well. The idea that if you're on the cusp and you're looking at your books to decide whether or not to make an investment in your plant, tell us how increasing the expensing provisions or maybe raising the threshold because it is not been indexed with inflation, how would that directly help you in making a decision that yes, we are going to make this capital purchase this year? Mike or Don either or Mr. Poli.

Mr. WAINWRIGHT. Yes, sir. The two things you look at, of course, your return on your investment. In other words, how can you recover that investment? In other words, it has to pay for itself. So to go about that—that is one of the provisions. The other one is, you know, will this make me more productive, to make my entire business more productive for the future? And both of those things are tied together.

So if we look at a new piece of capital equipment, the chances are the reason we are looking at it is to cut cost, to be more productive, to be able to compete with the foreign nations that continue to give us a—put us in a deflationary bent in this country. So if you give us a faster write-off, what we are going to be able to do is get our money back sooner, and that would just as—time is money and that just gives us our investment back much quicker. So we have the incentive then to go out and spend.

Let us say back in the 1980s when we went to supply side when Reagan put in supply side. You know, we had 100 percent write-off in the first year of anything we purchased at that time. I mean people were putting in steel mills at $750–800 million a shot, being very productive. But they were able to write that off in the first years or they could recoup their investment in the first year of what they needed to recoup. And that just flared industry and got it going because once you start the supply side, the demand side will then pick up. If you give people—I'm not saying we do not need some tax relief. But if you give people on the consumption side a tax relief and they're afraid they're going to lose their job, they aren't going to spend that money because they're worried about their job.

But if you give them—if you give the employer the option to be able to invest in his organization to make it more competitive in the world markets, to grow their business, and there's activity in that business, the people feel very confident and you also give them a tax relief on that consumption side and they start spending that money. Then we get the economy going. We have seen this in seven of the last nine recessions, that capital investment has led us out of the recession. Yet this time, you see what's happened. We have got 1.6 percent growth where we have usually jumped out of a recession at about 10.8 with capital investment leading us.

Mr. HULSHOF. Thank you.

Chairman AKIN. Thank you very much. Let me first jump to one of the things that you made some comment about in terms of tax. If you had to choose one particular tax, you could only choose one where we would do some reform, I've gathered from your comments—this is for any of the five of you—that it would be something along the lines of more rapid depreciation. You think that would probably do more for the manufacturing side to get things going. Am I correct in that assumption and, if there were a second thing, what would be your second choice after more rapid depreciation?

Mr. POLI. I agree the more rapid depreciation would be, as Don was just saying, that is a primary.

Chairman AKIN. Right. Anything else like double tax and dividends would still be second behind the more rapid depreciation?

Mr. POLI. Well, as touched on earlier just for a brief second, was the repeal of the death tax also and particularly in small business and in Missouri with a large rural and farming community also, repeat the death tax to keep the farms in the family and keep the manufacturing in the family. To make that repeal permanent would be a real benefit also.

Mr. WAINWRIGHT. Mr. Chairman, I would like to say one other thing about the capital investment. In manufacturing, which we are talking about—this is a manufacturing business that we are talking about at our meeting. In manufacturing, we are capital intensive. You know, machines—in 1950, we made up 25 percent of the GDP. We employed 34 percent of the work force. In the year 2002, we are at 25 percent of the GDP and we employ nine percent of the work force. That is productivity and that is the way we go. That is the only way we can be competitive. And so when you talk to heavy investment, capital intensive manufacturing, yes, that is the number one.

Chairman AKIN. That has got to be first. It is got to be first. I think the second thing that I was hearing—and correct me if I'm wrong—but I think I was hearing you say that the cost of health care is probably another one that is right up there in terms of your list of priorities all the way across the board. And if you were going to do some things in health care, Ken asked you about the associated health plans and yet you mentioned some ideas here that were a little bit different.

Particularly you, Sheila, talked about, you called them an HRA, health reimbursement accounts, and FSAs and things like that and some things that we could do to change the way cafeteria plans apply and all. Would you say that would be one of the top things? We have been working in the House and limiting the amount of punitive damages that physicians can be held for which, of course, reduced the cost of medicine somewhat and we are interested in moving ahead with AHPs. But I think what I was hearing you say, there may be some things other than the AHPs that you like almost better.

Ms. YAWITZ. Yes.

Chairman AKIN. Is that true or am I putting words in your mouth?

Ms. YAWITZ. No. You're exactly on target.

Chairman AKIN. Is that the same for you, Dan? Are you in the same boat with Sheila on that, that there may be something better than an AHP to give you the flexibility?

Mr. MEHAN. Yes. That is true.

Chairman AKIN. Okay.

Ms. YAWITZ. AHP is an unknown factor.

Chairman AKIN. Right.

Ms. YAWITZ. Okay. So, you know, what we know we have here are some good tools that need some refining and the cafeteria plan—well, let's back track. I mean everybody, manufacturer, this is a global market so anything that reduce and helps us to compete with foreign competitors. Let us not repeat that. But then the manufacturers themselves. We just represent them. Okay. They are their own companies over there, which is, you know, the bread and butter. They are the ones. At the bottom line is all of these costs that are not on a same ratio with Mexico and China, and health care is there.

When you can allow the partners and the shareholders also to participate in pre-tax dollars, taking off whether it is health care dependent, medical costs and health care premiums, you're going to have more participating in that. Plus, the flexible spending account is not coming near to its potential by employees. It doesn't come close because of the lose it or use it factor. If an employee knows that their premiums are X amount of dollars of year, their out of pocket, their preventative medicine, da-da-da-da, adds up to $500. Okay. All of a sudden, the employer changes their plan midyear or something changes in their personal, and let's say their costs at the end of the year are only $300. Do you know where the $200 goes? To the employer. So how can an employer promote flexible spending accounts when there's the possibility the employer is going to be retaining the employee's money at the end? It doesn't make sense.

So as far as the association plans, I think they're there on the table but a little refining on what you have already available is going to bring it down to consumer awareness, no different than we were. When I was a little girl, my dad paid 100 percent for all of our medical costs. Okay. When my husband was employed, the employer made 100 percent and 80 percent of the employee costs. We are somewhere in between and the fact is I go and I have a $10 co-pay. I purposely asked last time, how much does the prescription actually cost? $77. Employees do not care because they're not paying. I do not fault them for it.

Chairman AKIN. Yes.

Ms. YAWITZ. It is an educational campaign.

Chairman AKIN. If you were to take a look at some of these different line items in a manufacturing business, all of which add to your costs and all of which hurt competitive nature, how big is health insurance compared to things like workers' comp. or product liability or business insurance or these other things? Is health insurance the biggest one of that sort of insurance package of overheads?

Ms. YAWITZ. Usually you'll see a cycle where workers' comp. is high or property, casualty and health care is low. Unfortunately for the employer, they're both at their peak. So one used to be able to offset the other. Workers' comp., there's a few more options out there for self-insurance and group self-insurance, so it takes you out of the traditional market place to help smaller businesses. Both the Chamber and our association have these group self-insured plans. Health insurance affects—I do not care if you're an Ameron Huey who is sitting here in the company—I think he'd support—down to—our company has seven employees, when you're talking about 20 percent increase per year.

Chairman AKIN. So it gets to be pretty—So now, I didn't quite get an answer to my question. Do you think health insurance is probably one of the biggest in terms of the size on your bottom line and also the rate at which it is growing? Is that probably one of the worst?

Mr. WAINWRIGHT. I would say so, Congressman. The one thing you have to realize is that we do not want to lose the greatest health care system in the world. We still are the healthiest. It is a great country, the health care system we have. It is out of control from a cost standpoint right now. That is the thing we need to bring under control. So we do not want to federalize this, and that is why we need to get on this because that is the way it is heading. And I see some larger corporations that are ready to throw the towel in and say, let us federalize it. We cannot do any more. And that is the thing that has got me worried.

So we need to really start looking at this and really getting involved and making sure, and the things that were said by the associations are very true. People need to be involved. You need to have your people involved so you understand where the costs are and why are there costs and they need to work for wellness to try to keep it down.

But to come to your point on what is the most costly. When there is something you cannot control, that is what is costly to a business. In other words, workman's comp. You know, we work extremely hard in the state to make sure we keep—have one of the better states, one of the low cost workman's comp. bills in the country but yet still cover our employees, and how do we do that? Well, we make sure that our people are safe in those plants, they understand the system, they're well taken care of and we are able to monitor that and to explain to them and they're able to keep those costs down to help us and that is how we do that. So we can sort of control that. We can control a lot of those. Unemployment costs. We can control those.

So the type of cost that you can do things to—health insurance. They walk in and tell you it is going up 30 percent this year. Well, you can shop around a little bit but generally it is pretty much across the board and that is it. You have either got to have lower health—lower quality health care for your people or pay the bill. So we have to pay the bill. There's no way to get the high quality and cut the cost in this situation and keep it under control. So yes, it is a very vexing problem. I probably have four or five people that spend six to eight months a year trying to keep costs under control. We have been self-insured. We are big enough to be self-insured. Due to the liability situation over the last couple of years, we have moved back to the full insurance. But what happens when you're fully insured, it is like being with the federal government. Then you drop everything because you do not worry about the cost again. You know, you say, well, we are taken care of. You need to be involved and yes, it is one of the most important and highly escalating costs for business right now.

Chairman AKIN. Thank you very much. I appreciate your response to those questions and last question goes to Congressman Hulshof.

Mr. HULSHOF. Just really more of a comment than a question, and I appreciate, Mr. Wainwright, included within your written testimony. I know that time did not permit but you also referenced a national energy policy which we can't lose site of as far as making a sustainable economic growth and the manufacturing as far as a reliable supply at affordable price. In the House, we had that discussion just before we took our Easter recess and, of course, have given to our colleagues on the other side of the United States Capital what we think is a pretty good energy policy as far as conservation, in addition to looking at other reserves, and so I appreciate you mentioning that.

And lastly is a comment. Mr. Mittler, you also pointed out in your written testimony the permanent repeal of the death tax. You know, the 2001 tax reduction that passed the House and passed the Senate that the President signed into law, if it was good policy then, it remains good policy now and again, this unusual exercise we have gone through where technical Senate rules prohibiting us from making tax reductions permanent. If we fail to act in Congress, what that means is in a few years down the road, we are going to have a substantial tax increase and, as a business person, there is really no legitimate way to plan ahead to take care of your family business to pass it on, not knowing whether or not there will be an inheritance in 2010 and 2011 or not.

And so I share—and I know Todd shares your enthusiasm as well. And again, I just want to thank you, Mr. Chairman, for allowing me to participate in this hearing.

Chairman AKIN. Thank you very much, Congressman. Thank you, all of our panelists for your insight and all of the expertise that that represents and also thank the others who are here participating and interested in what we are taking a look at and we have taken your written comments for the record and again, thank you all for participating. Have a good afternoon. Meeting is adjourned.

[The meeting was adjourned at 2:15 p.m.]

OPENING STATEMENT
28 APRIL 2003

SUBCOMMITTEE CHAIRMAN W. TODD AKIN
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT & GOVERNMENT PROGRAMS

HEARING ON THE STATUS OF SMALL BUSINESS MANUFACTURING IN THE MIDWEST

Good Afternoon.

Before I begin, I would like to recognize some key members of our Small Business Administration we have in our audience today – Mr. Sam Jones, our Region 7 Administrator; Mr. Wendell Bailey of our local Office of Advocacy and Mr. Alan Richter from our local Small Business Development Center. Gentlemen, thank you for making the trip here to join us.

I am happy to announce that I am dropping a bill next week, which will, hopefully, make all of your jobs much easier. My bill, H.R. 1772 "The Advocacy Improvement Bill" will enable the SBA's Office of Advocacy to work that much harder to help small businesses stand-up to the government without many constraints that presently exist.

That's really why we are all here today – to see what we can do to help small businesses. I know how hard it is for all of you right now. I have seen the work-orders drop; I have spoken to the laid off machinists and have heard the troubles of the owner who has sunk his or her livelihood into a business only to feel it has been forgotten and passed over. Well, it hasn't! That is why I am here today. That is why we are all here today.

t is the small business owners and skilled laborers here, the machinists and engineers, who make up the lifeblood of this nation's economy. In the United States manufacturing accounts for 16% of our nation's economic output, makes up 81% of our national exports and accounts for 30% of our national economic growth. Over 60% of all research and development in this country is sparked by manufacturing.

Missouri is no exception. In fact we are one of only a few states who can boast our manufactured contributions to the Defense industry is a top component of our Gross State product. Throughout our state we have over 150,000 Missourians employed in defense-related firms. This can be a major asset in the coming years as National Defense is given new priority and Defense spending goes on the rise.

I would like to use today as a launching pad to ensure Missouri and the entire midwestern United States is assured of an upward trend for it's manufacturing base. It is no secret that I am in strong support of the President's tax cuts and am an even stronger advocate for lower taxes for the sake of manufacturing growth. These changes alone, however, though critical, are not enough. Missouri has lost nearly 10% of its manufacturing jobs over the past 5 years. The information we share here should help us more firmly grasp some of the issues. It is when we have this firm hold on the situation that we can most positively affect it.

With us today, we have some people who have a very intimate knowledge of this situation. Our panelists have been kind enough to give of their time and knowledge and it is through this knowledge that we will, God-willing arrive, at a prosperous market for our Manufacturers and their communities.

House Committee on Small Business

"Status of Small Manufacturing in the Midwest"

April 28, 2003

Prepared Remarks of Mr. Daniel P. Mehan, President/CEO of the Missouri Chamber of Commerce and Industry

While you will hear from employers across the country that times are tough, no where is this cry for action as loud as in Missouri. Losing more than 77,700 jobs last year, Missouri led the nation in job loss according to a report recently released by the U.S. Department of Labor. Missouri lost 15,000 more jobs than the next worst state, Ohio. Ohio's population, 11.3 million, is twice that of Missouri's population, which is 5.5 million.

Missouri was among 29 states, including six of eight surrounding states, with decreasing employment levels last year. However, our neighboring states' job loss pales in comparison to Missouri. Missouri lost 50,000 more jobs than any of our eight bordering states. Oklahoma lost 19,700 jobs and Illinois lost 14,000. Iowa lost 7,500 jobs; Nebraska lost 6,200; Kentucky lost 4,400; and Kansas lost 2,400. Tennessee posted a job gain of 1,600 jobs and Arkansas added 4,600 jobs to its workforce.

Manufacturing is by far the leading sector of private job loss for Missouri, with more than 13,800 manufacturing jobs leaving the state in 2002. That loss coincides with the national trends. Nationwide, more than 2.2 million manufacturing employees lost their jobs since June 2000 – 12 percent of the overall manufacturing workforce. Manufacturing employment has now decreased for 32 straight months. Last month alone, 36,000 manufacturing jobs were lost.

In the long equation that makes up Missouri's economic climate, workers' compensation is an important factor in keeping jobs in our state, but has been cited as one of the leading reasons for jobs moving out of our state. Everyday we are seeing reports in Missouri of plant closings and workforce reductions. One Missouri Chamber member moved to Missouri because of the anti-employer climate, including workers' compensation, in its previous state. But since 1991, this business has received increases in their workers' compensation costs of over 300 percent despite the fact that their safety is improving. The Missouri Chamber is working hard this session to stem the tide of rising workers' compensation costs.

Another factor in job retention and expansion in the United States is the litigious environment in which employers are forced to operate. The U.S. Chamber of Commerce states that our current tort system costs each and every American more than $600 annually – a $170 billion drain on our economy. Missouri is not immune to this problem and employers will tell you that Missouri's tort system is a contributing factor in the staggering job loss our state is experiencing. The Missouri Chamber has been pushing legislation to make Missouri's tort system more business-friendly. Twenty-seven states have implemented tort reforms in recent years, while this critical legislation has been blocked by the trial bar in Missouri. Now Missouri lags far behind these states in implementing protections that are critical to job retention and quality of life in Missouri.

Gov. Bob Holden is trying address Missouri's 2004 budget shortfall by implementing $167 million in new taxes while stating that Missouri's business community is using "loopholes" to avoid paying taxes owed. Closing these "loopholes" would raise corporate taxes by eliminating incentives or methods that are provided by other states, putting Missouri at a competitive disadvantage. The Missouri Chamber is pushing legislation to add incentives to keep Missouri's businesses in Missouri, lower the corporate income tax by 1 percent, and create a three-day sales tax holiday on specific items to increase revenue in Missouri.

These are the reasons I am here today to testify before the Small Business Subcommittee on Workforce Empowerment and Government Programs to urge your support of pro-jobs legislation under consideration by your committee and other pro-jobs bills at different stages in Congress. While there are many factors that make up the economic development equation, and many factors over which we are powerless to change, there are also some real reforms that can be implemented to stem this epidemic job loss.

One such measure under consideration by Congress, and supported by the Missouri Chamber of Commerce and Industry, is the creation of market-driven health care solutions, such as Health Reimbursement Arrangements. In an attempt to contain the spiraling costs of health care, the Missouri Chamber developed Missouri Chamber Care, a health insurance product developed around HRAs. Missouri Chamber Care is enabling employers to see 30 –40 percent reductions in their health insurance costs. This market-driven, innovative approach to health care is on the front of a wave of change in the insurance industry and we encourage Congress to find ways it can support these types of market-driven solutions to employers' challenges of providing this benefit.

President Bush visited with Missouri Chamber members earlier this year in St. Louis where he discussed how his tax-relief plan would get America's economy back on track. One important part of the president's plan is to accelerate the income tax rate reductions from 2001, so they take effect this year. At least 85 percent of small business owners file personal income taxes, by accelerating the income-tax relief plan, entrepreneurs will have more money to expand business, create jobs, or provide more for their employees.

Another important aspect of Bush's tax-relief plan is the elimination of the death tax. Bush's 2001 tax cut put it on its way to extinction, yet because of a Senate amendment, 10 years from the time of passage the bill could conceivably come back. For the sake of businesses around the nation, the Congress needs to make all the tax relief not only happen now, but to make sure the tax relief is permanent. With President Bush's plan, if passed in full, all working families would benefit as business expands, creates jobs, and raises workers' rages

These topics, along with the National Small Business Regulatory Assistance Act of 2003, the Job Protection Act of 2003, and the Small Business Investment Company Capital Access Act of 2003, are just a few of the federal issues we are closely monitoring on behalf of our members. As the state's largest employer association, the Missouri Chamber of Commerce and Industry thanks you for listening to our testimony. We sincerely appreciate the efforts of Congressmen Todd Akin and Kenny Hulshoff to address the problems that face Missouri's employers.

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House Committee on Small Business

"Status of Small Manufacturing in the Midwest"

April 28, 2003

Prepared Remarks of Ms. Sheelah R. Yawitz, President, Missouri Merchants & Manufacturers Association

Thank you for the opportunity to speak before you today. The Missouri Merchants & Manufacturers Assn. represents small and medium-sized businesses throughout Missouri and works on their behalf on legislative issues. Therefore, I appreciate the opportunity to be before you today.

It was recently reported by U.S. Department of Labor that Missouri lost 77,700 jobs in 2002. In addition, per the Annual Survey of Manufacturers:

The state of Missouri lost over 5,099 manufacturing jobs from 1997 to 2000.

(Annual Survey of Manufacturers – www.census.gov/business)

The state of Illinois lost over 15,724 manufacturing jobs from 1997 to 2000.

(Annual Survey of Manufacturers – www.census.gov/business)

In the US over 263,552 manufacturing jobs were lost from 1998 to 2000.

(Annual Survey of Manufacturers – www.census.gov/business)

Therefore this hearing is very timely and extremely important.

In preparation for this presentation, I took the opportunity to ask our manufacturers for their input.

Many of our manufacturers commented that a major factor contributing to loss of manufacturing jobs is foreign competition. US companies have additional costs dues to Workers' Compensation, Health Care, EPA, OSHA, wage differential, tariff & freight costs not equally posed on by China, Mexico etc. A member of our association, Mr. Mike Mittler, President of Mittler Bros. Brothers Machine & Tool is here to speak on this particular issue--the erosion of our US manufacturing base mainly caused by imports.

But, the one issue that was mentioned by each of our members as a major problem confronting manufacturers was the increased cost of health insurance. Some of their comments were, and I quote:

· These costs have increased far in excess of any of our other costs. Steel prices are up

about 20% over the last 9 months to a year, but group insurance costs are up over 40% in the last 3 years.

· Our biggest concern is controlling the cost of health insurance. In two years time our

cost per average number of employees has gone up by 83%.

· Many industries are unable to compete as a manufacturer in the US in an environment

featuring a high dollar, costly health insurance program against.

And finally: We are again looking at a minimum increase of 20% and the company can no longer absorb these increases. We may have to reduce coverage to avoid passing increases to employees. Either way the employees lose, but neither the company nor the employees can afford to pay for the increases. The employer goes on to say: What makes the health industry need these on-going increases? What makes them so different from other businesses?

The rising cost of health insurance is the issue that I would like to address and ask for your help.

During the last four years, health care costs increased almost 20% per year while prescription costs grew over 30% per year. Typical employee coverage has risen from $75 per month in the early 90's to over $200 per month today.

In a period of less than 5 decades the pendulum has swung from consumers negotiating the cost and paying for all of their health care, to employers paying the bill.

Employers are faced with a daunting task, and the choices up to now have been painful but simple: ask the employee to pay more premium; reduce benefits; or pay the increased costs. The current economy and the sheer magnitude of the costs have made all of these options difficult if not impossible to continue.

We finally have a new tool to offer employers to reduce and control their health care costs: Health Reimbursement Arrangements. Although they have been around for years, it wasn't until the summer of 2002 that the IRS issued rules outlining tax consequences of HRAs. Basically, HRA's are employer's money set aside in a fixed dollar amount for employees to determine their own medical needs and then use the HRA as needed. An employer may leave unused HRA funds to accumulate, or roll over, from year to year. The employer can also elect to allow all or a portion of those unused HRA funds to be allocated to retiree funding. With these options, HRAs are quite different than high deductible policies.

HRAs, FSAs (Flexible Spending Accounts) and Cafeteria Plans are all useful tools to help combat the rising cost of healthcare for employers and employees. However, restrictive rules regarding eligibility prohibit many small employers from implementing these plans. As way of background, when Cafeteria Plans were introduced, the IRS limited participation to "employees", excluding partners of Sub S corporations and LLCs. HRAs and FSAs have the same eligibility requirement. Therein presents our current problem. We are here today to ask you to consider the following changes:

1. Change the definition of an eligible employee to include partners of Sub S Corporations and LLC for purposes of Cafeteria Plans, HRAs and FSAs.

2. Change the use it or lose it concept technically under FSAs.

3. Allow mid-year changes in employees' elections to their Cafeteria Plans.

As part of my testimony, I am including a written Timeline of Health Care Costs during the past 50 years.

I appreciate the opportunity to speak to you today, and hope you will help us in expanding the HRA, FSAs and Cafeteria Plans to more businesses. These changes will allow the consumer to decide how to and on what products/services health care dollars are to be spent. When consumers become more involved, we will bring our health care system back to being 'affordable' and at the same time providing excellent coverage.

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House Committee on Small Business

"Status of Small Manufacturing in the Midwest"

April 28, 2003

Prepared Remarks of Mr. Mike Mittler, President, Mittler Brothers Machinery

There are a number of issues I would like to bring to your attention today that are affecting our industry, Tooling and Machining. Our industry is under attack. We are faced with a very unfair playing field imposed by our own government, including, unfair tariffs, excess regulations (EPA, OSHA), an overly strong dollar, and unfair competition from Chine, a communist country.

What is tooling and machining industry? Tooling is, in its simplest sense, the means of production. "Special" tooling, such as dies and molds, is custom designed and made to manufacture specific products, generally in quantity, and to the desired levels of uniformity, accuracy, interchangeability, and quality. Machining involves the use of a wide variety of machine tools to cut or form material, usually metal to precise shapes and dimensions.

Why is tooling and machining important for to the United States? The broad industrial group known as tool and die includes mold making (molds produce plastic parts), die cast dies (die casting means forming aluminum parts), forging dies (used to form iron and other metal pieces), stamping and trim dies (tools that stamp parts out of metal sheets), tools and fixtures (used to hold pieces in place to perform additional manufacturing steps), precision machining (forming objects by cutting to specifications within .001") and many other manufacturing specialties. These industries build the tools that are used as the building blocks of manufacturing. All mass manufactured objects begin at the hands of a tool and die maker.

Nearly every manufacturing company in the country, in the world, does business with our industry. The U.S. tooling and machining industry employs close to 450,000 people nationwide and accounted for shipments in excess of $43 billion. The metalworking industry includes precision machinists, die makers, and mold makers, as well as tool and die designers. Without them, the mass production of manufactured goods would not be possible.

Unfortunately, the demise of US manufacturing and therefore the tooling and machining industry is accelerating at an alarming rate. Unlike typical business downturns of the past when manufacturers simply cut back and waited for recovery, in the current downturn manufacturers are rapidly relocating outside the US and large numbers of small and mid-sized US manufacturers are closing down permanently due to foreign competition. The resulting loss of family sustaining blue-collar jobs is undermining the US middleclass and devastating rural communities where manufacturing is essential to the local economy.

The International Trade Commission (ITC) has recently completed its (332-435) investigation on the conditions in the U.S. tooling industry and submitted their report to the House Ways and Means committee. The study paints a very bleak picture of the industry and the future of the US economy. The market is currently facing a problem with overcapacity. The overcapacity has been created in part because American companies are closing their U.S. manufacturing plants and moving offshore in search of fewer government regulations, lower taxes and cheaper labor. At the same time foreign companies are becoming more technologically advanced and are able to offer significantly lower prices, sometimes as much as 60% cheaper. The industry could see as many as 50% of the shops close their doors in the next couple of years.

ECONOMY

The tooling and machining industry is critical to our country's economic health as it makes possible the existence of virtually every other manufacturing industry. The U.S.'s economic strength has been based on its manufacturing capability. In order for these companies to continue to improve and grow they have relied on innovations in manufacturing that are brought on by the tooling and machining industry. If we are to continue to grow economically we need innovative American companies. However, as the market continues to falter for the industry, fewer companies are open and thus a large percentage of the creativity and innovations are lost

The broader U.S. economy is suffering as well because manufacturing does more than any other sector to stimulate the economy. The average income of $44,700 for an employee and the consequent spending power of manufacturing workers is higher than that of any other sector and, due to its high multiplier effect, manufacturing directly or indirectly generates more jobs than any other sector. The manufacturing sector and the non-manufacturing industries that are directly linked to manufacturing, account for 45 percent of U.S. GDP and 41 percent of national employment. But as we see the closure of business, many of the new jobs created by small manufacturers in recent years are being permanently lost.

NATIONAL DEFENSE

However, as important as this industry is to the economic well being of the country, it is even more important to our national security. A healthy industry is an important component of defense production capabilities. We are the companies that produce the plastic injection molds that are used to build nuclear submarines, the ones that provide parts for our missile defense system, the wheels and joints on airplanes, the parts used to make rifles for our infantry.

Increasingly, defense prime contractors are subcontracting parts and tooling for defense systems to Asia. This practice is not being monitored by the Department of Defense and as a result the military is becoming dependent on foreign sources to supply critical parts and systems for weapons.

Consider the recent West Coast dock dispute. A defense contractor in California reported that it needed a custom piece of tooling from Japan in order to fulfill an important defense contract for Tactical Tomahawk missiles. However, as a result of the longshoreman strike the part was somewhere off the coast of California. In this day and age, can we allow our country to be dependent on foreign nations to provide us with the parts needed to keep the very weapons that protect our nation operational?

LEGISLATION

Raising the Limits for Direct Expensing

Raising the limits for direct expensing would allow small tooling and machining companies to expense (fully deduct from taxable income) a limited amount of the cost of new business equipment in a year. Under current law, our small companies can expense up to $24,000 in a year for 2001 and 2002 and $25,000 a year for taxable years 2003 and beyond. This tax benefit is limited to small businesses by a provision of the law, which stipulates that the expensing amount is phased out dollar for dollar for any amount of investment above $200,000 in a given year. Under the current law, since the expensing caps have not been indexed and therefore their value has decreased overtime, too many members of NTMA are unable to take full advantage of Section 179. The bill solves this problem by increasing the expensing limit to $40,000 and the phase out to $325,000.

Increasing the expensing limits will entice our member companies to purchase new equipment and machinery. Raising expensing limits under Section 179 will encourage businesses to investment in new equipment and machinery.

Permanent Repeal of the Death Tax

On June 7, 2001 President Bush signed the bi-partisan "Economic Growth and Tax Relief Reconciliation Act of 2001" which included the elimination of the estate tax. However, because of the budget rules, the estate tax cut in the new law will "sunset" in 2011, one year after it is fully repealed.

The estate tax provisions enacted provide relief to businesses by bumping up the exemption and lowering the rates. The repeal provision does nothing to help small business. Unless it is made permanent, small business owners are still faced with estate planning challenges.

Skilled Workforce Enhancement Act

The Skilled Workforce Enhancement Act will give small employers, those employing 250 employees or fewer, the needed incentive to train individuals. It will provide financial encouragement to help employers bridge the gap as newly hired, relatively unskilled and unproductive apprentices are trained in the classroom, and on the job, to become highly skilled and highly compensated members of the American workforce. The amount of the direct tax credit to the business would be $15,000 per employee, per year.

Contract Bundling

From FY 1992-2001 the Department of Defense bundled over 55% of contract dollars appropriated to them. By taking several small contracts and rolling them into one larger one, they are freezing out many of our small companies that are not capable of performing these larger orders.

Legislation in previous Congresses have been introduced that would amend the Small Business Act to require the Administrator to submit certain disagreements to the Director of the Office of Management and Budget for resolution, and to establish a minimum period for the solicitation of offers for a bundled contract. We support efforts that allow the U.S. government to contract to all American companies, not just large ones.

Association Health Plans

Currently, small businesses and the self-employed do not have the advantage of spreading their health insurance costs over large numbers of people, as do health plans sponsored by large corporations. Corporate and union plans have economies of scale, substantial bargaining clout, administrative savings from regulatory uniformity, and greater health plan design flexibility. Small businesses do not have access to these advantages.

AHPs will rectify this inequity by allowing small businesses and the self-employed to participate in health plans sponsored by bona fide trade and professional associations under rules similar to those for corporations and unions. This will provide workers with the benefits of economies of scale, more bargaining power with large insurance companies, and savings from other operating efficiencies. The bill also contains strong new solvency standards and other consumer protections that will ensure that their benefits are secure.

It is time to level the playing field in health care benefits between

America's Main Street small businesses and large corporations by enacting the Small Business Health Fairness Act.

Sound Dollar Congressional Coalition

The sound dollar is a fundamental pre-requisite for the difficult climb out of this recession as well as maintaining a healthy U.S. and global economy. A sound dollar is one whose value relative to other major currencies is determined by market forces that reflect fundamental economic trends, such as trade balances, interest rates, GDP growth and other objective indicators of a country's performance.

Six years into a dramatic surge in the value of the U.S. dollar, U.S. manufacturing and agriculture are under siege, particularly by nations utilizing currency intervention and undervalued currency pegs in order to inflate exports and protect their domestic markets. Last year in Alberta, President Bush set a clear course for the Administration's approach on exchange rates when he called for the dollar to "seek its level based upon market forces." Prominent among the benefits of this approach, as described by the President was the "revitalization of the U.S. manufacturing base".

Since that time the U.S. dollar has gradually declined from its extremely overvalued level. The dollar peaked in February 2002 at 30 percent above its normal level. Today it is still more than 15 percent above its normal level. While that is a great improvement, the dollar still has to decline significantly just to reach the average that prevailed after the "Plaza Accord" of 1985 that sought to stabilize exchange rates near their equilibrium levels.

Most of the improvement, however, has resulted from the gradual appreciation of the euro from its very undervalued levels. There has been little upward movement of Asian currencies, principally due to deliberate steps taken by their governments to hold their currencies at rates lower than those that would be determined by market forces.

Japan, Korea and Taiwan, which represented about $100 billion of our trade deficit last year, have practiced widespread blatant currency interventions multiple times in 2001 and again in 2002. China, which represented another $100 billion of our trade deficit last year, has an artificially low fixed exchange rate that boosts its manufactured exports and retards imports.

We also urge you to pressure the Treasury to publicly condemn currency manipulation and intervention by countries seeking to gain trade advantage at U.S. expense through efforts to contravene the working of market forces in currency markets, and that it seek bilateral consultations at the highest levels with China, Korea, Taiwan and Japan on these interventions/manipulations.

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House Committee on Small Business

"Status of Small Manufacturing in the Midwest"

April 28, 2003

Prepared Remarks of Mr. Don Wainwright, Chairman and Chief Executive Officer, Wainwright Industries, St. Peters, MO

Thank you, Mr. Chairman. I am Don Wainwright, Chairman and CEO of the Wainwright Industries, based in St. Louis. We are a manufacturing concern providing steel components to the auto and aerospace industries. We employ about 200 people.

I thank the Subcommittee, and especially you Congressman Akin, for this opportunity to discuss the importance of manufacturing to our state and country, and the unprecedented challenges that today threaten our competitive leadership in manufacturing.

Over the past year and two months, we have seen the weakest manufacturing recovery from recession since the Federal Reserve started keeping tabs on such things back in 1919. The data show that since December 2001, manufacturing production has edged up only 1.6 percent, drastically slower than the first 14 months of the previous six recoveries when growth in manufacturing averaged 10.8 percent.

But the weakness of manufacturing is perhaps best reflected in the loss of employment. Manufacturing nationwide has lost jobs for 32 consecutive months, more than 2.1 million in all. From July 2000 through last December, the overall attrition of manufacturing jobs was 11.3 percent, or more than one out of 10. Here in Missouri, during that time, we have lost 45,300 jobs, or 11.2 percent. Our experience pretty much reflects the national experience.

This is a frightening trend that we cannot afford to ignore. Manufacturing is essential to economic growth and employment opportunities. During the prosperity of the 90s, manufacturing was the largest contributor to economic growth. Manufacturing accounts for a quarter of U.S. economic output, 64 percent of exports, 62 percent of R&D, and 27 percent of growth. It is the driving force of technological progress and productivity growth. Indeed, during the late half of the 1990s, when the overall economy recorded respectable productivity gains of 2.5 percent a year, manufacturing roared ahead at 4.5 percent a year, or almost double that of the rest of the economy.

The loss of manufacturing jobs is particularly critical because they are some of our best jobs and have a major ripple effect throughout the economy. Manufacturing workers are among the best paid in our country earning 20 percent more than the average wage and more than 80 percent of them receive health insurance. In addition, manufacturing jobs tend to create and support more employment in other sectors than do service jobs. Our most conservative estimates suggest that the 16.5 million manufacturing jobs support at least nine million more jobs in other sectors of the economy.

It is also essential to emphasize the contribution manufacturing makes to national security – a contribution that has been dramatically visible to all of us in recent weeks. Our ability to deal with the regime of Saddam Hussein with minimal loss of civilian life among Iraqis, and relatively few casualties among our own troops, is based upon the advanced digital, laser and communications technology of industry. From the advanced fighter planes to the high tech ordnance guidance systems to night vision goggles – it is all a story of manufacturing genius at work.

Manufacturing is our nation's laboratory of innovation where our most creative people experiment with breakthroughs in technology in quest of the breakthrough products and more efficient processes that are the heart of productivity. But hundreds of shuttered factories and more than two million lost jobs are a shot across our bow. We have a problem and we have to deal with it. In my view, we face three fundamental policy challenges if we are to preserve our global leadership in manufacturing competitiveness:

· One - the economy remains listless and uninspiring. Our first step to getting manufacturing back in high gear is to increase demand for manufactured products. The tax reductions proposed by the Bush Administration, or some reasonable variation thereof, offer the best hope for restoring confidence among consumers, investors and business. We have to get our economy growing again.

· Two - rapidly-rising business costs stemming from a general indifference to the burden of government rules and requirements on business are becoming an economic burden on our companies and workers. For some companies, the cost is simply too much. They must either lay off employees or outsource work to foreign countries.

· And three -- while manufacturers must contend with steadily rising costs of doing business, unprecedented foreign competition makes it impossible for them to keep pace. Many of our trading partners routinely exacerbate their natural advantages with unfair trade barriers, including manipulation of currency values. China is the most conspicuous offender in this regard, and is emerging as the primary threat to many of our core industries. By some estimates, China's currency is undervalued by as much as 40 percent giving them a tremendous unfair advantage over U.S. companies – which means that China's exports to the U.S. cost 40 percent less than they should and that U.S. exports to China cost 40 percent more than they should..

Manufacturers are particularly worried because China's production is quickly moving beyond the traditional areas of textiles, toys and footwear – and into higher value-added production. Machinery imports from China are up nearly 50 percent in the last 12 months, furniture imports are up over 40 percent and organic chemicals are also up 40 percent. The list goes on. Last year, our trade imbalance with China passed the $100 billion mark and the deficit is growing by $20 billion a year. We cannot afford to keep hiding our heads in the sand to avoid facing up to this challenge.

In sum, manufacturing is the heart of our economic strength and national security. We cannot long maintain our position among the family of nations without a strong and viable manufacturing sector.

Earlier this year, the NAM Board of Directors, of which I am a member

authorized a Campaign for Growth and Manufacturing Renewal to raise awareness of how vital manufacturing is to our economy, identify the impediments to our competitiveness and rally support for pro-manufacturing policies and legislation. A key objective is policies that encourage adequate capital formation to enable manufacturers to take full advantage of technology to overcome low-cost foreign competition and the overvalued dollar. (The robust expansion and productivity gains of manufacturing in the late 90s was a function of strong capital investment. Also, many of our smaller members today have trouble obtaining adequate credit.)

Our basic policy objectives are:

* Tax policy that enhances economic growth and encourages productivity through technology and investment incentives, such as the expensing proposal in the President's tax plan;

* Trade policy that levels the global playing field for American manufacturers by opening markets, lowering tariffs, modernizing export controls and sanctions policies, enforcing trade laws and achieving market driven currency values;

* Cost-cutting reforms that will permanently improve the legal, regulatory, health care and retirement systems while lowering anti-growth and costly job-destroying burdens they impose;

* A national energy policy to ensure sustainable economic growth in manufacturing with emphasis on reliable supply at affordable prices, conservation, increased efficiency, strengthened infrastructure and investments in new technologies;

* Asbestos litigation and legal system reforms to reduce unwarranted burdens on the private sector;

* Technology policy that will preserve and enhance the U.S. lead in R&D and innovation and assure protection of intellectual property and

strengthen our engineering and advanced skills; and

* Worker and skills enhancing efforts to put people back to work and to empower today's workers to meet the challenges of tomorrow.

In closing, permit me to state what I believe to be our most fundamental task – to increase visibility and awareness of the importance of manufacturing to our society, and the compelling need to preserve and enhance our manufacturing capability, and to do this at both the national and grassroots level.

The challenges of a weak economy, changing technology, rising costs, and global competition will not yield to worn out phrases or yesterday's policies. We must bring to this challenge that same creative capacity that characterizes the people in the plants and factories who make things in America. The policies that would enhance and sustain our world leadership in manufacturing must be as innovative as manufacturing itself.

I thank the subcommittee for affording us this opportunity to discuss the challenges facing manufacturing – and the timeless importance of innovation.

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