



**“The Path to Job Creation: The State of American
Small Businesses”**

Testimony of:

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Before the

**Committee on Small Business
United States House of Representatives**

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**The Honorable Sam Graves (R-MO), Chairman
The Honorable Nydia Velazquez, (D-NY), Ranking Member**

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Protecting Small Business, Promoting Entrepreneurship

Good afternoon Chairman Graves, Ranking Member Velazquez and members of the committee. Thank you for hosting this important hearing today and for your invitation to provide testimony. My name is Michael Fredrich, President of Manitowoc Custom Molding, LLC (MCM Composites). We are a custom molder of thermoset plastic parts. MCM Composites produces a wide range of precision products from many different raw materials. We specialize in thermoset plastic molding, enabling us to focus our capital and effort on continually improving our thermoset knowledge, expertise and technical capabilities. I am also a member of the Small Business & Entrepreneurship Council (SBE Council), a nonpartisan, nonprofit advocacy, research and training organization dedicated to protecting small business and promoting entrepreneurship.

On October 31, 2001, fifty days after the 911 attack, I leveraged everything I had worked for and saved to acquire MCM Composites. It was a dream realized and I have never regretted the decision. In addition to the 911 aftershocks there were all the normal business risks to which everyone who ventures into the free market is subjected. Certainly the Great Recession was a very rough period, and I made many personal and financial sacrifices to keep MCM Composites in business. Fortunately, through hard work, dedicated employees, confidence from our bank, and some luck we overcame a rough start and celebrated our 10th anniversary last year. The hurdles we overcame were difficult but we always had the ability to control our own fate. We now face a risk which dwarfs all others and which we cannot control. We face a country risk.

I now worry more about our nation than about the company. We can compete and be successful but only if the free market capitalist system and our country remain strong. I worry about our nation's economic weakness and the ability of our political leaders to adequately address critical and mounting issues. On top of serious spending and fiscal issues, new legislation passed by Congress, the ever changing and confusing actions of the Federal Reserve, and what appears to be the insouciance of Washington regarding the level of Federal debt creates a level of uncertainty in the private sector which will only result in stagnation and decline. The future will be a bleak one without meaningful action to get spending under control and if Congress does not fix several costly and harmful pieces of legislation enacted during the past couple of years.

Some specific areas of concern and uncertainty include:

Access to Capital: The lifeblood of any business is capital (cash). The primary source of capital for small businesses is commercial banks. Our company has a relationship with a privately held community bank. When asked how Dodd-Frank will affect our banking relationship the president and owner replied that he was not sure because the law is still being implemented, but he knows the law will be expensive for the institution. The 1,400 page bill is expanding by another 1,300 pages of “details.” Our bank has one compliance officer, and most banks believe they will be forced to hire additional officers – that is, if they can afford one.

The general theme of Dodd-Frank is to favor managing risk through systems not people and culture. People, not ratios and statistics, pay back loans. If our bank had only been looking at our numbers in our early years of business we would be long gone. Through faith in our abilities and our character they stuck with us during very difficult times.

Dodd-Frank will make it difficult for community banks to stay in business. If they are able to survive the regulatory burden and its costs their culture will surely change -- no more relationship banking.

There is no doubt Dodd-Frank will limit small business’ access to capital.

Inflation: QE3 will be the third attempt by the Fed to stimulate the economy. It will fail as did QE1 and QE2. What is certain is the inflation this expansion of the money supply will create. The only question is “when?” We experienced a series of raw material price increases in mid-2011 ranging from 5-7%. No evidence of price increases so far this year, but it is early. Given the level of excess bank reserves and the adjusted monetary base all elements are in place for inflation, or worse, stagflation.

Health Care: Our company offers a high deductible HSA health care plan. The policy renews each June. Last year the premiums increased nearly 14%. We shopped for competing plans, but every insurance provider (five in total) that we approached chose to “max quote” -- they quoted a premium 85% higher than our current premium. Our current provider was limited by statute to a 15% increase in premiums. There clearly was no interest by any

of the health insurance carriers we approached to write our business. Our existing carrier is required by law to renew our policy. We essentially had one choice -- pay 14% more for the same coverage or offer no coverage at all.

The Patient Protection and Affordable Care Act is working as designed, not as its supporters said it would. It is raising costs while reducing options. The end result will be to push everyone into a single payer government run health care system.

Rise of Dependency: The number of Americans receiving some form of federal aid is shocking. More and more people are becoming dependent on the federal government. The Census Bureau reports that 49% of the population now resides in a home where at least one person receives some form of federal aid. The number was less than 33% in 1983 -- how far we have come.

Our company has some real life experience with the latest class of dependents which I call the “happily unemployed”. These are people who could work but choose not to. Their main job is to make sure they do everything required to qualify for unemployment. They often take part time jobs for cash to supplement the government check. Since Congress continues to extend the time people are allowed to collect unemployment there seems to be little risk for this new dependent class. Their only apparent risk is not doing the minimal amount required to remain on the program. Many of these individuals wait until Friday afternoon to collect the requisite number of signatures to prove they are doggedly looking for gainful employment. They show up in our lobby to ask if we are hiring and to get a signature. We make them fill out an application before we sign their form which irritates many of them. Some attempt to apply from the comfort of their home. They simply call and ask the name of the person answering the call (it is never given).

A long gap in work history is never a selling point. A person who sits idle for 99 weeks on unemployment when jobs are available (temporary help firms in Manitowoc have many openings) has permanently damaged their personal capital.

A nation which has more takers than producers -- and we are perilously close -- is not a nation with a good economic future. The conversion of

people from producers to takers for political gain is awful.

The Debt Blob: The greatest risk to our future prosperity is our federal debt -- funded and unfunded. Please understand that the current level of federal spending and debt accumulation is not sustainable. Small business owners know this, and that is why they are most concerned about this issue. A recent survey released by SBE Council and the Financial Services Forum in November found that small business owners believed that changes to federal fiscal policy would be the most single most effective strategy to encourage hiring and to get the economy back on track: 22% called for enactment of a credible plan to reduce the budget deficit; 20% urged the permanent lowering of federal tax rates; 9% said a reduction of social security taxes for employers would help; 6% felt all federal regulations should be assessed; 3% wanted a moratorium on all new regulations.

The federal government is spending \$10 billion per day of which we are borrowing \$4 billion. The federal debt is over \$15 trillion. During the eight years of the Bush administration \$3.2 trillion was added to the debt total. If nothing changes (nothing will) we will be at \$16.4 trillion by year end. All this and the Senate has not passed a budget in over 1,000 days. Our nation is in a debt death spiral and both political parties carry the blame.

We can look forward to the next Kabuki dance performance over raising the debt ceiling. Meaningless cuts in spending will be traded for leveraging our future and the problem will be kicked down the road -- probably until after the election.

Our nation is technically bankrupt but not yet insolvent -- other nations (not all friendly) are still willing to purchase our debt. When this ends, and it will, our options will be limited. My guess is the Federal Reserve will monetize our debt (print money) to support the welfare state. They have already inflated the currency as is evidenced by the price of gasoline and food -- two factors which are excluded from the CPI (another deception).

The rule in our company is you can complain about anything as long as you propose a solution. My solution is to stop this madness in its tracks by not raising the debt ceiling. Prioritize spending. Interest payments on federal debt get top priority and everything else is on the table. Work within your cash flow. Stop using the word "entitlement." Entitlements in government are like fixed costs in business -- they are not really fixed they are just difficult

to confront.

Summary: Many of the people I know who own small businesses had a pretty decent 2011. But there are many other business owners in our state and across the country who continue to have difficulty generating sufficient revenues to cover high energy, health care and other costs. MCM Composites happened to have a record year. However, optimism is tepid in the small business community.

In the SBE Council/Financial Services Forum survey noted above, small business outlook for the economy is not great -- 79 % indicated they expect current economic conditions to persist for at least another year, and 53% expect current conditions to continue for 18 months or more. The U.S. economy needs to be growing much more robustly to create the jobs our nation needs, and to encourage greater entrepreneurship.

Small businesses do not have the flexibility multinational corporations have to diversify country risk. We are generally “stuck” here and can only hope it is not too late to reverse our trend toward permanent stagnation.

Thank you and I look forward to your questions.