

**Summary of Testimony of George J. Kubat
President and CEO, Phillips Manufacturing Co.**

**Commerce, Manufacturing and Trade Committee Hearing
June 4, 2013**

Chairman Terry, Ranking Member Schakowsky and distinguished members of the subcommittee, good morning and thank you for the opportunity to testify today.

My name is George Kubat and I am the President and CEO of Phillips Manufacturing Co. Phillips is a drywall bead and trim manufacturer (basically the metal corners used in drywall applications and related products). We are a nationwide manufacturing and distribution company, privately held and in business for over 50 years.

Given my limited time in front of the subcommittee this morning, I will be focusing on the following areas and request your help which will benefit many manufacturers in the United States:

1. Over-regulation
2. Vocational education
3. Taxation
4. Unfair Foreign Competition

Over Regulation

My initial comment is the general concern that any time a representative of a government agency contacts a business and says: "I am from the government and I am here to help you" the immediate reaction is for the business to assume a defensive position.

The growth and complexity of regulation and corresponding enforcement increases in all areas every year. Although the agencies may know the regulations and rules under their umbrella, it is impossible for smaller manufacturers to stay current with what they must comply with. Of course, lack of knowledge or understanding, is not a defense for non-compliance.

The number of agencies whose regulatory umbrella Phillips Manufacturing must comply with include:

1. The Department of Labor
2. The Occupational, Safety and Health Administration
3. The Department of Health and Human Services
4. The National Labor Relations Board
5. The Department of Immigration Services
6. The Internal Revenue Service
7. The U.S. Census Bureau
8. Department of Transportation
9. Bureau of Labor and Statistics

10. Environmental Protection Agency
11. US International Trade Commission
12. Department of Commerce
13. Department of Homeland Security
14. The regulations of the 50 states, the District of Columbia, and countless counties and municipalities.

Certainly there is a need for regulation and governance over manufacturing practices for many reasons including employee safety, equality of treatment, environmental, immigration, health care, taxes, and many more but it can't possibly make sense for a relatively simple metal manufacturing business like Phillips Manufacturing to work through thirteen federal agencies and dozens of state and local agencies. As difficult and expensive as compliance is for Phillips, it has to be impossible for the smallest of manufacturers – those with fifty and less employees.

Over the past several decades in the United States we have created a labyrinth bureaucracy of government policy and complexity of regulation that makes it very difficult for Phillips Manufacturing and especially smaller manufacturing companies to compete in a global manufacturing economy. In today's global economy and transportation systems, we are in competition with manufacturing from all industrial countries. Most all have considerably less regulation in all areas as well as lower labor costs of production.

Vocational Education

Another request for this subcommittee is to reverse the decline in vocational education. Phillips Manufacturing is not alone in its struggle to find enough workers to fill our open positions in skilled trades. I believe many manufacturers, and our customers in the building construction trades, share this same challenge. It's little wonder that we struggle to find enough people in the skilled trades when I reflect on the fact that, to my knowledge, high schools and community colleges have none or minimal shop-type classes. The local community colleges have switched their marketing focus from skilled trades education to university preparation. Compare this situation to when I was in school, where almost every high school had shop classes and the local community college focused on the skilled trades education.

I'm not sure why the schools shifted so heavily in their emphasis away from skilled trades education, however I would hope that this committee can find a way to bring this important issue to light in Washington, D.C. so that other governmental agencies, possibly the Department of Education, can broaden the view of our education system to once again teach and prepare the next generation of manufacturers and builders.

Taxation

The U.S. tax code is archaic, complex and beyond the ability of even the IRS to understand it. Tax rates only continue to increase including the tax increases mandated by the Health Care and Education Reconciliation Act of 2010. Which, by the way, it seems no one really understands how this act will fully impact our cost of doing business in the United States. One thing is clear, the income tax rates for smaller businesses which are fortunate enough

to make money will go up by 3.8% in 2013. In addition, payroll taxes will increase, as well as the cost of providing insurance benefits to our employees. These costs reduce our ability to reinvest in our business and be competitive with non-U.S. businesses.

Unfair Foreign Competition

Earlier I referred to the Global Economy. What do we view as unfair foreign competition? Our regulatory and tax structure in the United States creates a higher cost of production for many products which Phillips manufactures. The unfair foreign competition is from products manufactured in countries where governments provide financial support. These products are of inferior material and quality. China is a major concern but also many other countries. It makes it difficult not only to compete with these products for sales in the United States, it makes it impossible to even think of exporting any of our products to foreign countries.

Conclusion

Please take action to lower taxes, stop the bureaucratic growth of regulation – less is better. Skilled trades are good jobs and people need to be trained/educated to fill the positions. Create and address unfair foreign competition. Phillips is proud to label all our products “Made in the U.S.A.”

In conclusion, I thank you for giving me the opportunity to present to you today.

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President and CEO, Phillips Manufacturing Co.**

The focus of my testimony will be on the following areas. I request your help which will benefit many manufacturers in the United States:

1. Over-regulation: Over the past several decades in the United States we have created a labyrinth bureaucracy of government policy and complexity of regulation that makes it very difficult for smaller manufacturing companies to compete in a global manufacturing economy.
2. Vocational education: Schools have shifted their emphasis away from skilled trades education. Can this committee can find a way to bring this important issue to light so that other governmental agencies can broaden the view of our education system to once again teach and prepare the next generation of manufacturers and builders.
3. Taxation: Income tax rates for smaller businesses which are fortunate enough to make money will go up by 3.8% in 2013 and payroll taxes will increase, as well as the cost of providing insurance benefits to our employees. These costs reduce our ability to reinvest in our business and be competitive with non-U.S. businesses.
4. Unfair Foreign Competition: Our regulatory and tax structure in the United States creates a higher cost of production for many products which Phillips manufactures. The unfair foreign competition is from products manufactured in countries where governments provide financial support.