

Has Government Become the “Big Bad Bear?”

Do you remember playing a game when you were a child where you tried your best not to walk on any cracks in the sidewalk so the “big bad bear” wouldn’t get you? If the sidewalks were old, there were so many cracks that you had to tip toe to get by without stepping on any. Well, businesses are being forced to play a similar game with government today, and *the “cracks” are getting so close together that it’s almost impossible to tip toe through the maze of “cracks” that come in the form of government taxes and regulations.*

The new Health Care Reform Act has vastly expanded the requirement for businesses to file IRS Form 1099s for all payments over \$600 annually. Current law requires a business to provide a completed 1099 form to any independent contractors, subcontractors, freelancers, etc. that are not employees or corporations to whom they made more than \$600 in payments over the course of a year. The new law extends this requirement to corporations as well. This could mean that a business would have to provide a 1099 to their utility company and every other vendor to which they pay more than \$600 a year for services. For metal manufacturers, such as machine shops, sheet metal fabricators, stampers, and casting companies, this could mean they have to provide a 1099 for companies that provide surface finishing services such as painting, plating, or powder coating.

A new survey by the [National Association for the Self-Employed](#) (NASE) found that self employed and micro-businesses (under 10 employees) are “expecting this new regulatory burden to greatly or somewhat increase the amount they spend on tax preparation.” With over 40 percent of survey respondents still preparing their own taxes, this added workload will significantly increase the time business owners spent on tax preparation or force them to hire an accountant, adding to their cost of doing business. This is another example of how the indirect costs of complying with government rules and regulations are just as burdensome to businesses as the direct costs of taxes and regulatory fees.

A study by the Regulatory Studies Program at George Mason University’s Mercatus Center in 2001 (“A Review and Synthesis of the Cost of Workplace Regulations”) found that workplace regulations have a significant cost. The researchers surveyed 100 manufacturers in the United States, ranging from 7 employees to 65,400 employees. The survey showed:

- Complying with workplace regulations cost an average of \$2.2 million per manufacturing firm or about \$1,700 per employee
- Smaller firms (less than 100 employees) faced higher costs than large firms (500 or more) with costs of \$2,573 per employee and \$1,530 per employee respectively

The survey revealed which types of regulations affect manufacturers the most:

- Worker Health and Safety regulations, including OSHA, accounted for one-third the cost of compliance
- Regulations governing employee benefits ranked second, making up 27 percent of the cost of compliance
- Civil rights, labor standards, and labor-management relations regulations each made up about 10 percent of the cost of compliance

If these amounts were extrapolated to all manufacturing firms in the United States, the total cost of compliance would be about \$32 billion.

A 2005 study on “The Impact of Regulatory Costs on Small Firms” by W. Mark Crain, Lafayette College for the Small Business Administration Office of Advocacy showed that small businesses continue to bear a disproportionate share of the federal regulatory burden. The cost of compliance with all federal economic, workplace, environmental, and tax regulations is an average of \$5,633 for all sized firms. However, for companies under 20 employees, the cost was \$7,647 compared to \$5,282 for companies over 500 employees. In the manufacturing sector, the cost per employee is \$10,175; nearly double the average for all firms. For small manufacturers, the cost is \$21,919 per employee compared to \$8,748 for large firms. For medium-sized firms, the compliance cost per employee is \$10,042. In the service sector, regulatory costs differ little from small to larger firms.

A recent NAM study showed that U. S. manufacturers face a 22 percent cost premium compared to its trading partners due to excessive regulation and other external costs. U. S. manufacturers cite the massive amount of government regulation imposed on them, especially environmental regulation, as one of the prime reasons they have made the decision to outsource manufacturing offshore. Countries such as China may have environmental and labor regulations on the books, but government officials who have been told to look the other way do not enforce them.

If Federal lawmakers want to “save American manufacturing,” they need to wake up to the fact that adding burdensome government laws and regulations will actually reduce the tax revenue the federal government receives by driving manufacturers to export jobs overseas. There is some talk in Congress about repealing this provision of the Health Care Reform Act. I certainly recommend that they do so, but this is just another example of the unintended consequences of lawmakers voting on bills they haven’t read. It’s almost as if government is choking “the goose that lays its golden eggs.”