

Testimony of Raymond Arth,

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**On Behalf of
The National Small Business Association**

House Government Reform Committee Hearing
“Paperwork and Regulatory Improvements Act of 2003”

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Thank you. Chairman Davis, Ranking member Waxman, members of the Committee, I appreciate the opportunity to speak on behalf of the National Small Business Association (NSBA), formerly National Small Business United. My name is Raymond Arth, and I am the President and CEO of Phoenix Products, a faucet manufacturer based in northeast Ohio. I currently serve as the First Vice Chair of NSBA, and I am a past Chair of the Council of Smaller Enterprises, which is the largest local small business organization in the nation and an affiliate member of NSBA.

As a small business owner and long-time board member of NSBA, I can attest to the dire need for paperwork relief for small business owners across the country. I commend you for your efforts and dedication to small business through the introduction of the Paperwork and Regulatory Improvements Act of 2003. Before I get started, let me state that paperwork is a symptom, not the root problem. Government's tendency to over-regulate is the source of all the paperwork; did you know that that Government actually regulates the amount of water our toilets are permitted to flush?

Moving on, we all know what the numbers say: federally mandated paperwork equates to 8 billion hours with the IRS accounting for 80 percent of that figure. The Small Business Administration reports that the average per-employee cost of all federal regulation for companies with fewer than 20 employees is approximately \$6,975, nearly three times what large companies pay. In many cases, paperwork is a burden imposed after a business enterprise has taken steps to comply with the regulation in question. I'd like to use my testimony to outline the current state of affairs leading to the need for legislation and reform in the paperwork and regulation arena.

Where we've come from:

Small business owners have long been supporters of a strong and viable Paperwork Reduction Act (PRA), which was passed in 1980. The Act authorizes the Office of Management and Budget (OMB)—through its Office of Information and Regulatory Affairs (OIRA)—to review all regulations being promulgated by executive branch agencies. This review is designed to centralize the regulatory process, end redundancy in

data collection, simplify and reduce paperwork requirements, and ensure that small business is not inadvertently harmed by unreasonable federal regulations and paperwork. Yet, despite the best intentions of the PRA, small businesses have been fighting for years to fill the holes that federal regulatory agencies have punched into this law.

By their very nature, unnecessary federal regulation and paperwork burdens discriminate against small businesses. Without large staffs of accountants, benefits coordinators, attorneys, or personnel administrators, small businesses are often at a loss to implement or even keep up with the overwhelming paperwork demands of the federal government. Big corporations have already built these staffs into their operations and can often absorb a new requirement that could be very costly and expensive for a small business owner. Oftentimes, regulation and its accompanying paperwork burden are manipulated by large companies to create additional barriers to entry by smaller competitors.

Most federal officials who develop regulations are largely unaware of the many activities and requirements of their fellow agencies. The Paperwork Reduction Act simply intends to bring small business reality and a sense of regulatory necessity into the thinking of the federal bureaucracy--and eliminate excessive redundancy.

In order to accomplish these goals, OIRA was given the authority and duty of preventing needless and redundant information requests from being imposed on the public. While the agencies are required to demonstrate the necessity of the data request and to publish it in the Federal Register for public comment, a strong OIRA is necessary to provide an adequate check for these agencies. The original intent of the PRA and the work that OIRA has been doing has not yet accomplished the overall goal. Over the last decade there have been numerous attempts to amend and improve the Paperwork Reduction Act, however agencies have continued to increase the amount of paperwork leading to a seven-year upward trend of the paperwork burden.

Duplication is another serious concern. Agencies must seek ways to eliminate duplication of paperwork. The paperwork requirements for filing mandatory emergency

plans is an excellent example. As you know, many agencies require emergency plans, such as a plan for hazardous waste, a fire report, a leak report or a storm-water plan. As one small business owner recently informed me, he must maintain nine notebooks each containing a different emergency plan. From these notebooks, he has to scramble to find the booklet that covers a particular area when agency personnel regulating each area come to inspect or paperwork is due. Inevitably, the paperwork due dates are all different and require him to keep a separate calendar simply dedicated to these dates. This is not uncommon, and it would be a huge relief to simply streamline dates.

Another implication with complicated and duplicative layers of paperwork is that it is easy for a well-meaning small business to overlook a requirement or a deadline because they don't have dedicated compliance staffs to research the vast federal (not to mention state, city and local) regulatory paperwork quagmire.

The Small Business Regulatory Enforcement Fairness Act of 1996 was designed to get small business more involved, provide small businesses plain-English explanations of new regulations, require federal agencies to do the research on the most cost-effective implementation methods available for small businesses to achieve compliance, and establish Regulatory Fairness Boards to rate the regulators. Where does the SBREFA law stand today? At this point, I believe that federal agencies have yet to take it seriously. It isn't for a lack of involvement or process. There are Small Business Regulatory Fairness Boards in every region and there are Small Business Advocacy Review panels. Additionally, SBA Office of Advocacy continues making every effort to weigh in on the issues and keep small business informed and active on regulations.

Regardless, small businesses are still being pummeled by the federal government's mandates on paperwork and needless regulations. During a hearing held by your subcommittee on Energy Policy, Natural Resources and Regulatory Affairs, one of NSBA's members brought stacks upon stacks of paperwork he is currently mandated to complete. In addition to that, new rules proposed by the EPA will add another 80+ hours of paperwork burden to his already entangled process of federal compliance. We must

also keep in mind that when an agency is estimating the burden hours, they are not taking into account that a pipe-organ builder who owns his own business knows pipe-organs, not complex federal regulations. The time it takes to wade through the forms, read the multiple schedules, exemptions, extras, so on and so forth significantly increases any number of hours proposed by a federal agency.

Possible solutions:

All this being said, I do understand there is a need for some regulations and paperwork. Yet the small businesses who make up 99 percent of all employers are by and far carrying the brunt of the burden.

I'd like to again commend Chairman Davis, Reps. Ose, Tanner, Moore, Janklow, Matheson and Ryan for working to bring HR 2432 to fruition. This bill would solve many of the problems we see with the current lapse in diligence to reduce the paperwork and regulatory burden on America's small businesses.

As a businessman, I know what it means to be short staffed, I understand that people can only do so much. This is why I, along with the NSBA membership, support Section 3 of the bill to dedicate two full-time employees solely to the purpose of reducing the tax paperwork burden. As NSBA has been urging for years through our Tax Equity Study, small businesses need more government resources dedicated to reducing the burden imposed by the IRS. Additional people within OMB is a solid start, and we would even support increased staffing to further the goal of reduction of paperwork.

In what would seem to be a common sense idea, this legislation would also streamline the processes in which information is collected by OMB from federal agencies. Perhaps this "leadership by example" is exactly what federal agencies need to establish their own streamlined methods of information collection. I'd like to also state for the record NSBA's support of the proposed requirement of federal agencies to submit the estimates of the cost as well as the benefit associated with rules and paperwork for each of their

programs. Again, a common-sense move from a business perspective where the terms “return on investment” and “cost-benefit analysis” are in the daily vernacular.

Finally, I’d like to comment on section 5 of HR 2432. Regardless of whether or not a regulation is good, bad, necessary or frivolous, we need to keep in mind that even the “good” piles of paperwork take time away from the vital task of a small business owner. When we’re completing our 5500’s or the myriad of EPA required reporting, we are not running our businesses, we’re not creating jobs and we’re not spurring economic growth.

Section 5 of this bill aims at creating a proactive versus reactive method of dealing with regulations and paperwork. By aiming to make permanent a current pilot program within the General Accounting Office, this bill would give the GAO the authority to respond to requests on proposed rulemakings that may have significant economic impacts. Section 5 would enable Congress to take true responsibility for oversight through the guidance of independent studies and evaluations.

If you ask any small business owner his or her opinion of federally required paperwork, the responses overwhelmingly will indicate there is redundancy and excessiveness in the filing process. I’d like to reiterate one figure before I close: companies with fewer than 20 employees pay nearly \$7,000 per employee per year to comply with federal regulations, three times more than what large companies are faced with. I, and many small business owners like me, don’t want to “play outside the rules” we merely want to stay in the game.

Large and small companies alike are facing enormous competition from foreign companies, with the fiercest competitors coming from Asia where regulations are lax for business. Regulation and paperwork are impairing American companies’ ability to compete in global markets, which are all markets now-a-days, and thus costing jobs in the U.S. While our primary goal is to reduce the burden on small businesses, we must keep in mind the ramifications of excessive regulation on all businesses, and the economy overall.

For all of these reasons, we would like to offer our strong support for HR 2432 and commend this committee for working to create the tools to help keep the federal regulatory juggernaut in check.

I'd like to again thank you, Chairman Davis and Committee Members, for this opportunity to speak. I welcome any questions the committee may have for me.