

Fear Hinders Job Growth

No president, no member of Congress or the U. S. Senate, no governor, and no member of state legislatures can create private sector jobs. Government programs may help or hinder businesses, but they all require government employees to administer them. Government jobs cost taxpayers money while private sector jobs generate tax revenue for government.

Data from the Federal Small Business Administration (SBA) shows that 99.9% of all businesses are small businesses and that 80% of all jobs are created by small businesses. About 99% of all manufacturers are small and medium-sized companies, employing more than nine million workers. Since the recession began at the end of 2007, these companies have lost more than 850,000 jobs, which is 42% of the total jobs lost in the goods-producing sector.

The question is if we are in a recovery, even though weak, why aren't businesses creating jobs? The number one reason businesses aren't expanding and hiring more people is that they are afraid. They are afraid the weak recovery won't last and we will have a "double dip" recession. They are afraid of the increase in taxes when the Bush tax cuts sunset at the end of the year. They are afraid of the cost to their businesses to comply with the Obama health care program. They are afraid of the effect on the economy of the escalating national debt. They are afraid of the possibility of Kerry-Lieberman cap-and-trade legislation passing Congress and being signed into law. Even though the latter looks unlikely to pass this year, it could be revived in the next session just as the Obama health care bill was revived and passed earlier this year after seeming dead at the end of last year.

While the business outlook for manufactures improved for the fifth consecutive quarter according to the latest Manufacturing Index by the National Association of Manufacturers (NAM) and Industry Week, 58% of respondents said that uncertainty about the business outlook was delaying both their company's plans to expand employment and their capital spending. An additional 8% said it was delaying plans to expand employment and another 8% said it was delaying plans to expand capital spending.

After the Bush tax cuts sunset on December 31, 2010, individual tax rates will increase to nearly 40%. About 68% of all manufacturers are organized as S-corporations or sole proprietorships that are taxed at the individual rate. Increasing taxes would deal a painful blow to small businesses recovering from the economic recession. According to NAM's economic models, manufacturers would lose an additional 238,000 jobs by 2019 if these tax increases were enacted.

On January 1, 2011, the capital gains tax will jump up 33% - to 20% from 15%, and the tax on dividends will go up 164% - from 15% to 39.6%. The death tax will go up from a tax rate of zero this year to a rate of 55% on estates of one million dollars or more. This can have a devastating effect on the ability of small family-owned businesses to continue after the principal owner dies. This exorbitant tax can force survivors to sell the business in order to pay the estate taxes and thus lose their family's livelihood.

Many other tax cuts from the Bush administration will disappear, and a new set of tax hikes will appear, such as the elimination of the research and development tax credit and widening the application of the Alternative Minimum Tax so that more individuals pay it. According to the

Association for Tax Reform there will “literally be scores of tax hikes on businesses that will take place. The Congressional Budget Office estimates that the expiration of the Bush tax cuts will cost taxpayers \$115 billion next year alone and \$2.6 trillion through 2020.

As reported in the July 23, 2010 Wall Street Journal, “Federal Reserve Chairman Ben Bernanke told lawmakers Thursday that the U. S. ‘should maintain or stimulus in the short term.’ Extending the Bush tax cuts ‘is one way’ way of doing that, he said.” The article also reported, “pressure is growing on the administration from a small number of Democratic lawmakers to extend all the Bush cuts, which include taxes on investment income and capital gains.”

A study conducted by Science Applications International Corporation (SAIC) for the American Council for Capital Formation and the Small Business and Entrepreneurship Council assessed the impact of the proposed Kerry-Lieberman cap-and-trade bill on manufacturers jobs, energy prices, and the overall U. S. economy. The analysis concluded that as many as 1.9 million jobs would be lost and the cumulative loss to the U. S. Gross Domestic Product (GDP) would be up to \$2.1 trillion. Residential electricity price would increase up to 42% and gasoline prices per gallon would go up 18%. SBE Council President and CEO, Karen Kerrigan said, “Small business owners cannot create more jobs when costly policies such as Kerry-Lieberman take more of their hard-earned resources.”

As long as the current administration views businesses as “the rich” that need to pay higher taxes, it will be difficult to create the jobs we need to reduce unemployment and foster real economic recovery. Businesses are employers that provide jobs. We don’t have an agricultural economy like we did in the Great Depression. People can’t go back to living off farms when they lose their manufacturing jobs. We need to help businesses succeed and grow, not put burdens on businesses in the form of tax increases and other onerous laws and regulations.

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