

Testimony
Of
Dennis Jacobe, Ph.D.
Chief Economist
Gallup
Before the
United States House of Representatives
Committee on Small Business
Hearing on
The Path to Job Creation: The State of American Small Business
February 1, 2012

Good afternoon, Chairman Graves, Ranking Member Velazquez, and Members of the Committee. My name is Dennis Jacobe, and I am Gallup's Chief Economist. Gallup is the world's best public opinion research company and is strictly nonpartisan. In this regard, I'd note that my comments are my own and not those of Gallup.

I am pleased to be here today to discuss the current state of American small business and the path to job creation. In my few minutes today, I'd like to summarize five key points:

- Gallup's behavioral economics data suggest that both the U.S. economy and the small business operating environment are currently at a crucial juncture;
- Small-business owners are the most optimistic they have been since January 2008;
- Small-business owners want to create jobs;
- Small-business owners perceive key obstacles; and
- A behavioral economics approach can help small business.

U.S. Economy and Small Business Are at a Crucial Juncture

Gallup's behavioral economic measures — based on daily interviews with 1,000 Americans nationwide and posted on Gallup.com — continue to show reasons for modest optimism about the future course of the U.S. economy.

- During recent weeks, Economic Confidence has been at its highest since May 2011. . Americans enter 2012 just as optimistically as they did 2011. This modest improvement in consumer perceptions is an essential condition for an improved economy.
- Job Creation also has been at its highest levels of 2011, as measured by the percentage of employees who tell us their employer is hiring workers or letting workers go. This is a positive for the U.S. economy, and is similar to the improvement in jobless claims.
- According to Gallup, unemployment was measured at 8.3% (not seasonally adjusted) at mid-January. Underemployment, which in our measure includes those who are working part-time but seeking full-time work, was at 18.1%. Both unemployment and underemployment remain at very high levels, —but they continue to show modest improvement in early 2012.
- In January 2012, daily consumer spending as self-reported by the American consumer remains slightly above year-ago levels.

Overall, Gallup's behavioral economics data show that conditions exist for a moderate economic expansion to take place in 2012. However, this remains a tenuous situation that could easily deteriorate. The preliminary GDP report for the 4th quarter of 2011 was disappointing. Europe's financial situation remains a problem. Americans' confidence in the future direction of the U.S. economy is fragile, as is consumer spending.

Job Creation Is a Major Challenge

Gallup's monitoring of the unemployment situation shows what we all know — the United States faces a job crisis. Underemployment — those unemployed and those working part-time but looking for full-time work — was 18.1% at mid-January, according to Gallup. However, the number increases to 29.1% among Americans ages 18-29 underemployed and to 22.8% among those without a college education.

Gallup's U.S. Underemployment Rate, Monthly Averages[^]

Not seasonally adjusted

[^] Mid-January numbers reflect rolling averages for the 30-day period ending on Jan. 15, 2012



Gallup Daily tracking

GALLUP

When Americans were asked in an open-ended fashion in October 2011 what they thought would be the best way to create jobs, 19% of respondents said to keep manufacturing jobs in the United States, 14% said reduced government regulation, and 14% suggested creating more infrastructure work.

In your opinion, what would be the best way to create more jobs in the United States?
 [OPEN-ENDED]

	Nov 20-22, 2009	Mar 25-27, 2011	Oct 6-9, 2011
	%	%	%
KEEP JOBS IN U.S.			
Keep manufacturing jobs here/Stop sending overseas	18	25	19
Higher taxes on imports/Buy American	4	6	7
MORE LIMITED GOVERNMENT			
Reduce government regulation/involvement	7	10	14
Lower taxes	14	12	10
Cut government spending/Reduce the deficit	3	5	3
MORE ACTIVE GOVERNMENT			
Create more infrastructure work	10	13	14
More stimulus money	4	2	3
FOCUS ON SMALL BUSINESS			
Do more to help small businesses	12	11	7
Make more credit available/Make it easier to get loans	2	2	2
OTHER			
Improve education	3	4	4
Hire more U.S. citizens/Stop hiring illegal aliens	3	5	4
Improve the economy overall	1	2	3
Create more "green" jobs	6	3	2
Other	9	9	4
No reason in particular (vol.)			
	4	3	4
No opinion			
	16	14	18

(vol.) = Volunteered response

Note: Percentages add to more than 100% because of multiple responses.

GALLUP®

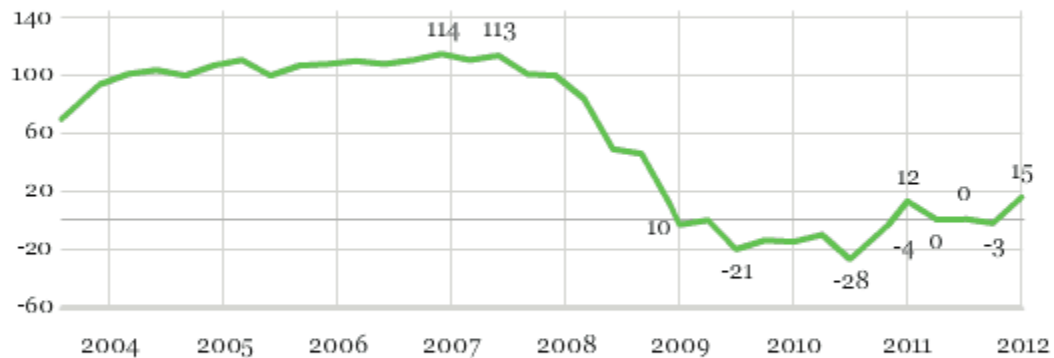
Small-Business Owners Are the Most Optimistic They Have Been Since July 2008

In January 2012, America's small-business owners are at their most optimistic since July 2008, according to a new Wells Fargo/Gallup Small Business Index survey conducted January 9-13, 2012. The Index now stands at +15 compared to minus three (-3) in October and following two previous Index readings of zero (neither optimistic nor pessimistic).

The increase in the Index is driven by sharp increases in small-business owner expectations that their financial situation will improve as their revenues and cash flows expand over the months ahead.

Wells Fargo/Gallup Small Business Index

The Small Business Index consists of owners' ratings of their businesses' current situations and their expectations for the next 12 months, measured in terms of their overall financial situations, revenue, cash flow, capital spending, number of jobs, and ease of obtaining credit.



Index conducted since August 2003 and quarterly from December 2003-January 2012; results for January 2012 are based on 600 interviews conducted with small-business owners conducted Jan. 9-13, 2012.

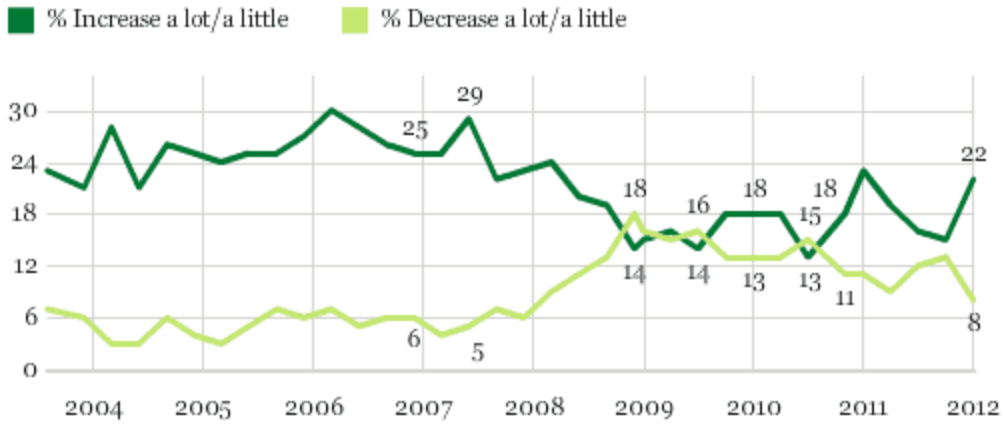
GALLUP®

Small-Business Owners Want to Create Jobs

As small-business owners have gotten more optimistic in early 2012, their hiring intentions have improved significantly. More small-business owners expect to add new employees (22%) than expect to let them go (8%) over the next 12 months. This 14-percentage-point hiring/firing difference is the largest since the start of the financial crisis in January 2008. The hiring/firing difference over the previous two surveys was 2% in October and 4% in July of last year.

Wells Fargo/Gallup Small Business Index -- Future Jobs Expectations

Over the next 12 months, do you expect the overall number of jobs or positions at your company to increase a lot, increase a little, stay the same, decrease a little, or decrease a lot?



August 2003 to January 2012

GALLUP®

When those small-business owners who are hiring were asked why they are looking for new employees, their top four responses were: expanded business operations, increased consumer or business demand, sales and revenues justify adding more employees, and to replace an employee who left.

Why are you looking for new employees?

	%
Expanded business operations	64%
Increase consumer or business demand	64%
Sales and revenues justify adding more employees	55%
To replace an employee who left	44%
Secured additional capital to fund my business	13%
Gov't tax incentives allow me to hire	7%
Some other reason	43%

Wells Fargo/Gallup Small Business Index, Jan 9-13, 2012

GALLUP®

America's Small-Business Owners Perceive Key Obstacles

When small-business owners were asked as part of an October 2011 Wells Fargo/Gallup Small Business Index poll what they think is the most important problem facing small-business owners today, the top five responses included: Complying with government regulations (22%), Consumer confidence in the economy (15%), A lack of consumer demand (12%), A lack of credit (10%), and Poor leadership by government and the president (9%).

What do you think is the most important problem facing small-business owners like you today? [OPEN-ENDED]

	%
Complying with government regulations	22
Consumer confidence	15
Lack of consumer demand	12
Lack of credit availability	10
Poor leadership/Government/President	9
Cash flow	7
New healthcare policy	5
Competition from big business and overseas	4
Lack of jobs	4

Wells Fargo/Gallup Small Business Index, Oct. 3-6, 2011

GALLUP®

Small-business owners were also asked in October what they would need to see in order to feel their business will thrive in 2012. The top three small-business owner responses included: growth and sales increases (15%), job creation (14%), and fewer government regulations (12%).

Thinking about your small business and the economy, what would you need to see in order to feel that your business will thrive in 2012? [OPEN-ENDED]

	%
Growth and sales increases	15
Job creation	14
Fewer government regulations	12
Improved economy	8
Cash flow	7
Change of president	7
Availability of credit	6
Better tax laws	6
Consumer confidence	5
Improved housing market	4

Wells Fargo/Gallup Small Business Index, Oct. 3-6, 2011

GALLUP®

In January 2012, those small-business owners not hiring were asked why not. While 76% said they did not need additional employees at this time, significant numbers also said:

- Worried revenues or sales won't justify adding employees (71%);
- Worried about the current status of the U.S. economy (66%);
- Worried about cash flow or ability to make payroll (53%);
- Worried about the potential cost of healthcare (48%); and
- Worried about new government regulations (46%).

Small-Business Owners' Views About Credit Availability Remain Stable

Small-business owner perceptions of credit availability have remained relatively stable over the past several years, with 33% in December saying it was difficult to obtain credit they needed over the past year. This is more than twice the pre-financial crisis level.

Wells Fargo/Gallup Small Business Index -- Current Credit Availability

Over the past 12 months, how difficult or easy was it for your company to obtain credit when you needed it?

■ % Somewhat/Very difficult ■ % Somewhat/Very easy



August 2003 to Oct 2011

GALLUP

A Behavioral Economics Approach Can Help Small Business

Unleashing America's small business is essential to the future of U.S. job growth. Gallup polling combined with behavioral economics provides some insights into what might be done to help America's small businesses create more jobs sooner rather than later.

Of course, a stronger overall U.S. economy is the only real long-term solution to the challenges facing America's small businesses today. Small-business owners are by nature optimistic and intend to hire if they have the revenues and cash flows to do so. And while there is no silver

bullet that will guarantee a stronger U.S. economy for small business in 2012, small-business owners are more optimistic now than they have been in some time.

On the other hand, Gallup polling suggests that government regulation has become a major concern for the nation's small businesses. There is always a debate to be had and a balance to be struck between the public benefits associated with government regulations and the cost of those regulations. While regulatory change can have a big impact on individual companies and industries, most often it does not have a major impact on the overall U.S. economy. However, these are not normal economic times, and small-business owners seem to feel government regulations are making their difficult operating environment even more challenging.

In turn, behavioral economics and small-business owner perceptions would suggest that one thing government could do for small businesses immediately is to implement a one year moratorium on all new regulations. It really doesn't matter whether the proposed new regulations would have a significant real impact on today's small businesses or not. What matters is that the potential of new regulations is worrying small-business owners. Eliminating this potential — whether real or imagined — would likely change small-business owners' behaviors, making them more likely to expand and hire. This is particularly the case given the current improved level of optimism among small-business owners.

January's survey results also indicate that 29% of small business owners are hiring fewer workers than they need out of an abundance of caution following several years of a very difficult operating environment. As a result, we could see an explosion in new hiring once the nation's small-business owners become less worried about government regulations.

Gallup's data also suggest that more hiring by small businesses would intensify the search for qualified employees. Right now, about half of small-business owners are complaining about being unable to find the skilled and experienced people they need. While education plays a role in creating this problem, so does the unprecedented length of this job recession. The government may want to encourage small businesses to employ interns, or provide similar on-the-job-training, so that employees can gain needed skills and job experience.

Right now, America's small businesses and the U.S. economy are at a crucial juncture. While small-business owners tend to be agile — and have demonstrated their ability to adjust to the business cycle as needed to survive — the current weak economy has persisted since 2008. About one in four small businesses are worried about whether they'll survive 2012.

In this regard, everything that can be done should be done to unleash American small business, build on the optimism of early 2012, and encourage small businesses to create new jobs. If we delay, far too many of today's small businesses may not be around to be unleashed in the future.

I want to thank the Committee for this opportunity to testify at today's hearing. I would welcome the opportunity to discuss my testimony in more detail.