



Testimony of
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Before the
U.S. House of Representatives
Committee on Small Business

Hearing on
Building an Opportunity Economy: State of Small Business and Entrepreneurship

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Good morning, Mr. Chairman and Members of the Committee. It is a pleasure to be here to discuss Gallup's analytics on the state of the U.S. economy, the attitudes of small-business owners and the current barriers to job growth and startups.

The Importance of Jobs and Gallup's Tracking of the Jobs Situation

Gallup completed its first nationally representative survey of the world in 2006. Our biggest finding from this study was that what the whole world wants is a good job. This finding compelled us to more thoroughly study the global jobs situation. Gallup now quantifies the prevalence and quality of jobs in more than 140 countries each year. Gallup also tracks employment daily in the United States, surveying roughly 30,000 adults per month and more than 350,000 people per year.

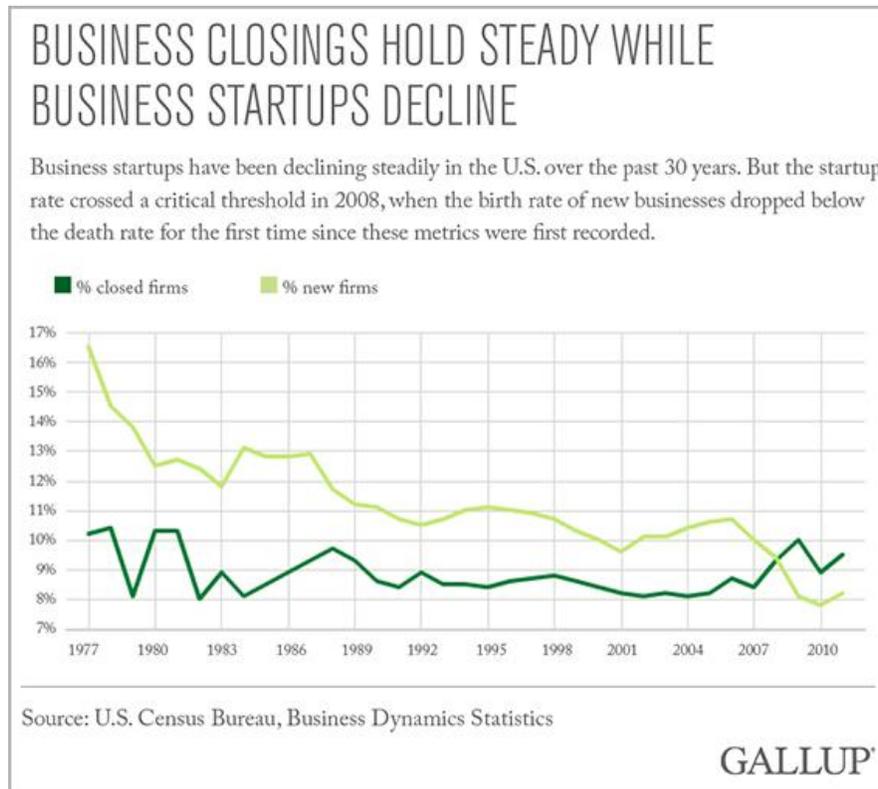
The State of the U.S. Economy

There are a number of signs from Gallup's data that the U.S. economy has been improving since the recession: Americans' attitudes toward the economy are improving, self-reported discretionary spending is steadily increasing and people are reporting that hiring is outpacing firing in their workplaces. Despite this encouraging news, job creation remains a problem.

While official unemployment has fallen from roughly 10% in 2010 to roughly 6% today, using this metric to represent the total jobs picture could be misleading. Traditional unemployment includes only people who are looking for work, who are available for work and who have not worked a single hour in the past week. This means that if a person has given up looking for work or if a person has worked only a single hour in the past week, that person is not considered unemployed. A different metric offered by Gallup quantifies the number of people employed full time for an employer — often referred to as a “good job” — as a percentage of the total adult population. Known as Payroll to Population (P2P), this metric stands at 44.3% today and has not meaningfully increased since early 2010, when Gallup started tracking this daily.

Barriers to Job Growth

One of the main reasons that the jobs situation has yet to recover is that, according to the U.S. Census, the number of business deaths now exceeds the number of business births among employer firms for the first time since 1977, when this measurement began.



The Current State of the Small Business Economy

This leads us to the importance of small businesses and startups in this country. They contribute roughly 70% of all new jobs created in a single year. Considering their importance, Gallup works with Wells Fargo to track the opinions and behaviors of small-business owners quarterly.

The good news is that the attitudes of small-business owners are steadily improving. The Wells Fargo/Gallup Small Business Index stands at +71, which is the highest index score since the onset of the recession. Sixty-four percent of small-business owners report that their company's current financial situation is good and 71% expect their company's financial situation to be good 12 months from now.

However, despite this positive trajectory, small-business owners face clear challenges. When asked to name their most important challenge, the No. 1 issue they report is finding or attracting new customers (15%). This is followed by mentions of the economy in general (12%) and government regulations (10%). However, if we add those who cite healthcare/Obamacare (8%), or just government in general (6%), fully 24% of small-business owners say the government is in some way their biggest challenge. Also worth noting, while many small-business owners believe available credit is a major issue, only 3% say it is their most important challenge.

Barriers to Startups

In addition to the barriers faced by current small-business owners, there are also barriers facing would-be entrepreneurs. One in four Americans have thought about starting a business, but have abandoned the idea. For an economy with a negative net number of startups each year since 2008, this represents a missed opportunity to engage would-be entrepreneurs that could result in business startups. Three major barriers are keeping these would-be entrepreneurs from taking the plunge: 1) they prefer the security of a stable income, 2) they do not have enough money to start a business and 3) they lack the knowledge on how to start a business. Because the majority of business owners fund their early-stage businesses through personal savings, a steadily declining personal savings rate in the United States has negatively affected prospective entrepreneurs' ability to finance new businesses. Moreover, if they lack insight on where and how to begin, starting a business is even more difficult, and these prospective entrepreneurs are more likely to be more risk averse.

Conclusions

Creating good jobs and subsequently rebuilding America's middle class hinges on the success and failure of small businesses and startups. Existing small businesses are experiencing headwinds caused primarily by challenging business realities, the overall economy and a concern about government regulations. Would-be entrepreneurs face barriers such as not having enough money to start a business and lacking knowledge about starting a business. It would be wise for Congress and American leadership to consider all options to unlocking this invaluable economic institution. The American public would be behind them. Other than the military, there is no other institution in the United States that the public has more confidence in than small businesses.

Attachments

Figure 1

Gallup's U.S. Economic Confidence Index -- Monthly Averages

January 2008 through January 2015



Gallup Daily tracking

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Figure 2

U.S. Payroll to Population Employment Rates

Monthly trend, January 2010-December 2014

■ % of adult population employed full time for an employer



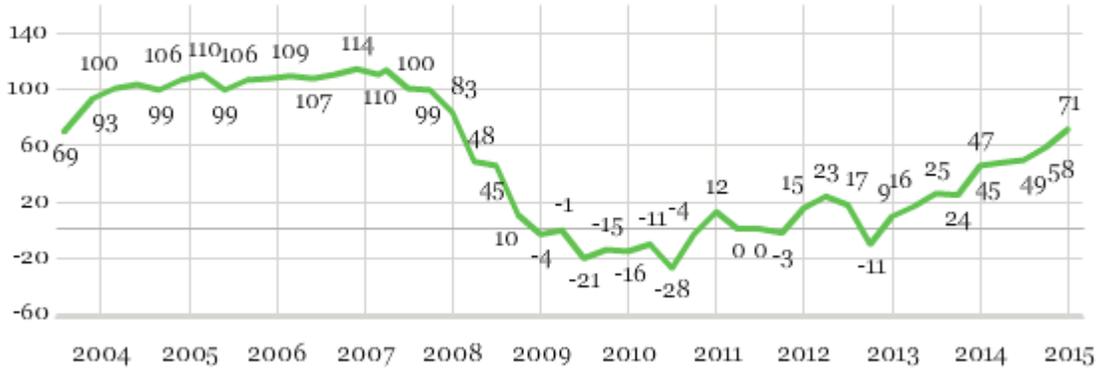
Gallup Daily tracking

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Figure 3

Wells Fargo/Gallup Small Business Index

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



Index conducted since August 2003 and quarterly from December 2003-January 2015

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Figure 4

Wells Fargo/Gallup Small Business Index -- Most Important Challenge

What do you think is the most important challenge facing you as a small-business owner today?
(Open-ended)

	Qtr 4 2013- Qtr 4 2014
Attracting customers/Targeting business opportunities/Finding work/New business	15%
The economy	12%
Government regulation	10%
Healthcare/Obamacare	8%
Financial stability/Cash flow	8%
Hiring qualified/Good staff and retaining them	7%
Costs/Fees of running the business/Having enough money for capital investment	7%
Taxes	7%
Government (general)	6%
Competition/Larger corporations/Internet	5%
Other	3%
Credit availability	3%
None/Nothing	2%
Employee benefits	1%

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Figure 5

Now I am going to read you a list of institutions in American society. Please tell me how much confidence you have in each one -- a great deal, quite a lot, some, or very little?

Sorted by most to least confidence in 2014

	% A "great deal" and "quite a lot" of confidence
The military	74
Small business	62
The police	53
The church or organized religion	45
The medical system [^]	34
The U.S. Supreme Court	30
The presidency	29
The public schools	26
Banks	26
The healthcare system [†]	23
The criminal justice system	23
Newspapers	22
Organized labor	22
Big business	21
News on the Internet	19
Television news	18
Congress	7

June 5-8, 2014

[^] Based on 510 respondents

[†] Based on 517 respondents

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