

# THE PATH TO JOB CREATION: THE STATE OF AMERICAN SMALL BUSINESSES

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## HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS SECOND SESSION

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WEDNESDAY, FEBRUARY 1, 2012

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Committee met, pursuant to call, at 1 p.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, Chabot, King, Mulvaney, West, Walsh, Schilling, Velázquez, Schrader, Clarke, Cicilline, Richmond, Hahn.

Chairman GRAVES. Good morning. We will call this hearing to order. I want to thank everyone for joining us today to examine the state of small business economy. Some of our witnesses have traveled here from a pretty good distance and we appreciate you being here very much. Thank you.

Being a small business owner in America is a tough job. No matter what your business is you must wear a lot of different hats. In addition to doing what you do when you went into business in the first place you probably have to tackle responsibilities like being a tax accountant, advertising executive, regulations expert, fund-raiser, and human resources expert as well. Yet throughout our history entrepreneurs in America have done all these things and a lot more.

Recently, the business if being in business has gotten a whole lot more difficult. Last year, Gallup released a poll outlining the most significant concerns facing America's small businesses. Small business owners have a very simple message for Washington—get out of our way. Entrepreneurs in this poll pointed to excessive government regulation, lack of available capital, and low consumer confidence as the biggest hurdles small businesses have to overcome. And this poll mirrors numerous trade association, think tank, and national media polls that say the same thing. Small businesses want Washington to let them do what they do best.

Earlier this year the U.S. Chamber of Commerce released a poll showing that the vast majority of small businesses believe that the national economy is on the wrong track. Nearly two out of every three do not plan to hire in the coming year due to regulations and the general uncertainty of the national economy. Seventy eight percent of small businesses surveyed reported that taxation, regulation, and legislation from Washington makes it harder for businesses to hire more employees. The uncertainty is coming at them

from all sides and I think we need to be doing a better job of restoring confidence to entrepreneurs and consumers alike.

Adding yet more doubt to the economy is the rising federal deficit and the financial crisis abroad. We see firsthand how out-of-control debt can destroy economies all over in Europe. This can impact our economy through decreased exports and exposure of American investments to losses overseas. Small businesses remain uncertain not only about the U.S. economy but about trouble in the world economy as well. This economic uncertainty disproportionately impacts small businesses more than larger businesses because larger businesses have the resources to deal with a rapidly changing economic environment.

We have a real opportunity to enact changes that give small businesses the tools they need to lead an economic revival. Government does not create jobs to produce long-term economic growth; the private sector does. The faster Washington releases the reigns, the faster we will see Americans back on the job and put our nation back on the path of economic prosperity.

And again, I want to thank all of our witnesses. I look forward to hearing your testimony. And now I will turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Chairman Graves.

By almost any measure conditions for small firms are better today than any time since the recession ended in June of 2009. According to the Federal Reserve, banks losing credit restriction for small businesses every quarter in the last year. Similarly, the Thomson Reuters Small Business Lending Index showed an increase in borrowing by small firms for five straight months through the end of 2011. There has also been a steady decline in delinquency and defaults on small business loans for much of the past year. These conditions are a significant reason why the NFIB index of small business optimism registered the fourth straight monthly increase in December. Last month, 9 percent of small business owners reported plans to increase employment, the second strongest reading since 2008.

Even with this progress a great deal of work remains to be done. Despite adding 1.6 million jobs to the economy in the last year, federal policies have not been sufficient to overcome job losses incurred in the recession. The unemployment rate which has fallen over the past year is only projected to reach the low 8 percent range by the end of 2012. Clearly, our optimism must be tempered by the reality that we still have a long road ahead of us with millions of Americans who are seeking jobs unable to find it. Members of this committee know better than most that small businesses will be critical for job growth. In particular, one group excels over others. Startup businesses grow faster, create more employment opportunities, and are more innovative than older, more established firms.

While startups account for only 3 percent of U.S. employment, they are responsible for nearly one out of every five jobs created year over year. And according to the Kauffman Foundation, the net new jobs from startups can be credited for all the job growth in the U.S. over the stretch of roughly 30 years. If we want to accelerate the recovery, steps should be taken not only to assist small busi-

nesses but also to target help to high growth startup firms. Unfortunately, this is one area where federal policy continues to lack. While general credit conditions have improved, lending to startups and early stage businesses remains tight. Last year the number of small loans to smaller firms, those of 250,000 or less in the SBA 7(a) program fell by over 50 percent compared to pre-recession lessons.

With that said, small businesses of all varieties remain critical to our economic health. Today I look forward to hearing both anecdotal accounts, as well as empirical evidence about the state of the economy. In doing so this committee can identify what is working as well as areas where we still face challenges.

Let me thank all the witnesses who traveled here today for both your participation and insight into this important topic.

I yield back. Thank you, Mr. Chairman.

**STATEMENTS OF DENNIS J. JACOB, CHIEF ECONOMIST, GALLUP; PETER FERRARA, SENIOR FELLOW, THE HEARTLAND INSTITUTE; MARTIN BAILY, SENIOR FELLOW, THE BROOKINGS INSTITUTION; MICHAEL J. FREDRICH, PRESIDENT, MANITOWOC CUSTOM MOLDING**

Chairman GRAVES. All right. Our first witness today is Dr. Dennis Jacobe, who is the chief economist at Gallup with 20 years of experience working with some of the world's best known financial firms. He leads several of Gallup's key economic tracking measures. Dr. Jacobe received a Ph.D. in economics from Virginia Tech with major areas of specialization in money and banking, public finance, and public choice. Thank you for being here today with us, Dr. Jacobe.

**STATEMENT OF DENNIS J. JACOB**

Mr. JACOB. Thank you, Mr. Chairman. It is a pleasure to be here, Chairman Graves, and Ranking Member Velázquez.

What I will do is just quickly go through some of the key points of my testimony. We have a lot of data moving very quickly. What I want to do is cover five quick points, the first being that I think we are at a critical juncture for the economy from our behavioral economics data and it provides us with an opportunity and also a risk, of course.

Second, we just completed a poll with Wells Fargo Gallup Poll that we do quarterly every year and we found the highest optimism we have found since July of 2008. So that is a really good opportunity in that context. We found their hiring intentions to be the best they have been since January of 2008. So it is another kind of opportunity where people are looking forward to 2012 in a very optimistic way.

We also found in our survey some key obstacles to their doing that hiring and to expanding, and then I have a suggestion for you from our sort of behavioral economics and polling analysis.

So what we do is every night we ask about 1,000 Americans across the country their opinions on the economy. We ask a lot of other things but we are the only polling firm that goes and does that every night. We have done that consistently since January of 2008, so now we have a pretty good behavioral economics database.

From that, for example, we create a consumer confidence index of our own we call Economic Confidence. And unlike what you heard from the conference board, our numbers show that consumer confidence remains as high as it was prior in May of last year. So it is not the downturn that you have heard recently, and we think our numbers, about 30,000 interviews a month, are pretty impressive in that kind of measurement process.

In terms of job creation, we created something we call a Job Creation Index and we ask firms' employees whether they are hiring or firing. In that process we measure over time their intentions to hire. What we are finding is employees are saying that hiring intentions are the best they have been since 2008. Again, another surprising number. Actually, September of 2008.

We also measure unemployment, and what will happen Friday I do not know because there is a lot of change taking place with what the BLS does on an annual basis. But our number comes out to be, as I have in my testimony, at mid-month it was 8.3 percent, which is seasonally unadjusted. Just today our number comes in at 8.6 percent in terms of the unemployment rate. More important, if you see in my testimony on the first chart in there, I have 18.1 percent underemployed. Our underemployment measure takes the people who are unemployed and adds to the number of people who are working part-time but want to work full-time. That number just over the last two weeks has gone up to 18.6 percent. So again, a critical kind of junction and a big jump in a short period of time.

If you look at our index, which is a couple charts further into my testimony, you see that huge jump in terms of small business optimism. That number, the 15, as I said, the highest since July of 2008, and on the next page I sort of outlined for you the gap in terms of hiring intentions, which again is good at January 2008.

When we survey small business owners, which we do routinely, we ask them why they are not hiring. And I outline in my testimony a sequence of different questions as to why people are not hiring right now. And obviously, they always come back—small business owners come back they would like more revenue, they would like more cash flow, that kind of thing. But one of the key items that they continually repeat no matter how we ask the question is that they are concerned about government regulation. Whether that is true in reality or simply true in perception, they continually repeat that as one of the reasons why they are not hiring.

So that leads me to sort of two quick conclusions. One is that I think that given the juncture of small business with their optimism right now, anything that you could do to help that optimism and that psychology would be beneficial, and simply a moratorium on regulations so you do not discuss what is good and what is bad but simply taking away that psychological constraint I think would give a boost to small business at this point in time.

And then I also mentioned, and we are very concerned about the high level of unemployment and underemployment, so we think that we should consider something that helps get small businesses into the process of bringing in interns and those kind of works to learn because we are afraid that a lot of people are not getting the

skills they need. And when we keep surveying small businesses they tell us that they need skilled workers.

Thank you very much. I will be glad to answer any questions.

Chairman GRAVES. Thank you, Dr. Jacobe.

Our next witness is Peter Ferrara, the senior fellow for entitlement and budget policy at the Heartland Institute. He served in the White House Office of Policy Development under President Reagan and as associate deputy attorney general of the United States under the first president Bush. Mr. Ferrara is a graduate of Harvard and Harvard Law School. Welcome to the Small Business Committee.

#### **STATEMENT OF PETER FERRARA**

Mr. FERRARA. Mr. Graves, Ms. Velázquez, members of the Committee, thank you for the opportunity to testify this morning—this afternoon, actually. I have sort of a macro view of the economy and as it affects small businesses and everyone else, actually.

Even President Obama's budget projects that the federal government's gross federal debt will soar to 100 percent of GDP by 2020. The Bank for National Settlements estimates that this gross debt will accelerate even faster, hitting 200 percent of GDP by 2022, and 300 percent by 2030. Under current policy, CBO projects that even the smaller national debt held by the public would rocket to 185 percent of GDP by 2035 and to 200 percent by 2037, twice as large as our entire economy. This national debt would explode further to unprecedented levels of 233 percent of GDP by 2040 and to 854 percent of GDP by 2080.

What this means is that America is almost at the same disastrous level of debt as Greece, and on our current course we will soon be there. Indeed, in our current course we will rocket right through that level and well beyond. Now, most people do not know that soon after World War II, federal spending as a percent of GDP has been fairly stabilized and has remained stable at around 20 percent of GDP until recently. Official U.S. government projections have shown for some time now that over the next 30 to 40 years federal spending as a percent of GDP will double to 40 percent or more. Financing that will ultimately require at least doubling every federal tax. Adding continued state and local spending growing towards 15 percent of GDP and government in American will consume more than half of the economy. In fact, it will be more than that because the economy will collapse under that burden and the percent of spending as a percent of GDP will be even higher. This would fundamentally transform America into a static, low growth, socialist European state. America's traditional world-leading prosperity and opportunity, the American dream, would be gone. And of course, small businesses would be the first and chief victims of that economic future.

But there is good news if we would open our minds and think anew. As I showed in detail in my recent book, *America's Ticking Bankruptcy Bomb*, by modernizing our old-fashioned tax and redistribution entitlement programs to rely instead on 21st century capital labor insurance markets, we can achieve all the social goals of these entitlement programs far more effectively, actually serving seniors and the poor far better at just a fraction of the current cost

of these programs. Such reforms would involve powerful market incentives driving the programs to contribute further to boom the economic growth and prosperity rather than detracting from it. Ultimately, these reforms all together would reduce federal spending by half or more as a percent of GDP of what it would be otherwise solving the long-term fiscal problem. Yet, because these reforms would involve fundamental structural changes that actually serve the poor and seniors far better, rather than simple-minded benefit cuts they would be politically feasible. Modernizing the programs to the remarkable benefit of the populations they serve, which the book shows is possible by harnessing markets and incentives to achieve the social goals of the programs far more effectively is the political key to unlock the door to unnecessary entitlement reform.

Exhibit A, the first example of this, would be the 1996 Welfare Reform that reformed the old AFDC program. That program previously was based on a matching federal funding formula. The more the state spent, the more the federal government would send to the state, basically saying the state to spend more. That form was transformed into finite block grants. The federal funds for the states were fixed by a formula fixed finite amount. If the states spent more, the states had to spend it out of their own pocket. If the states reformed, the program spent less. They could keep the money.

With those incentives we had remarkable results. Two-thirds got off the program within a couple years and went to work. They saved the taxpayers about 50 percent of what it would have cost otherwise after a period of about 10 years. Yet, the poor gained. Their incomes are documented to increase by 25 percent because so many more of them were working. There are nearly 200 more federal means tests and welfare programs. This same reform could be extended to each one of those. They are estimated to cost \$10 trillion over the next 10 years. I estimate that extending those same reforms would save \$4.1 trillion. See, again, the poor gain; the taxpayers gain as well.

Another key example, personal accounts for social security. You would shift the spending from its enormous reduction in federal spending. You shift the spending from the public sector to the private sector; yet the seniors in the future would gain higher benefits rather than lower benefits because the long-term market investment returns are so much higher than what social security can even promise, let alone what it can pay, which is based on no savings and investment at all but just tax and redistribution. So again, seniors gain and taxpayers gain because the tax burden, eventually you could expand those personal accounts to displace the payroll tax entirely, financing all the benefits through that are financed by the payroll tax today through those personal accounts.

So that is another example that modernized programs serve seniors far better and solve the long-term fiscal problem. The same would apply to Obamacare and I could go into that. Thank you very much.

Ms. VELÁZQUEZ. Yeah. It is my pleasure to welcome Mr. Martin Baily. He is a senior fellow in economic studies at the Brookings Institution. He is also a senior advisor to McKinsey and Company and an advisor to the Congressional Budget Office. Dr. Baily pre-

viously served on the Council of Economic Advisors, including as chairman from 1999 to 2001. Dr. Baily earned his Ph.D. in economics from MIT. He has taught at MIT, Yale, and the University of Maryland. Welcome.

#### STATEMENT OF MARTIN BAILY

Mr. BAILY. Thank you, Chairman Graves, Ranking Member Velázquez, and members of the Committee. It is a real privilege for me to be able to speak here today.

Let me start on the overall economy. It is still fairly weak, although I think it is doing better than it was. I think we are going to see so much stronger growth in 2012 than we saw in 2011, and I think the report from Dr. Jacobo supports that. Optimism is beginning to rise both among consumers and among small business.

Nevertheless, I would not expect to see more than about 2 to 3 percent growth in 2012. Why are we having such a slow recovery? Housing, housing, housing. It has got an awful lot to do with the fact that we ended up in this housing bubble. We spent too much money thinking that we were richer than we were. We built too many houses, and as the bubble burst we lost a lot of household wealth and so we really are still experiencing the legacy of the housing bubble.

Also, recessions develop their own kind of inner dynamic. You get a loss of jobs, a loss of income, then consumption is weak. That means that sales are weak so hiring and investment are weak because sales are weak. And so that goes around again and we end up in a fairly deep hole and it has taken a long time to get out of it. I think it would have been helpful actually if everyone, policymakers and economists, had realized just how long it was going to take to get out of this mess. It really was the most severe recession in a long, long time and that is just not solved very easily.

I think there is an upside. I think we could get more than 2 to 3 percent growth if confidence begins to build. This is about the time when you might expect to see the recovery really begin to break out on the upside, so I do have some confidence. On the other hand, we have some risks, too, including Europe. If Europe goes down, if we get a lot of financial failures in Europe, I think that will be very hard for the U.S. not to get dragged down. We have tensions in the mid-East. If oil prices were to jump that would be another serious problem.

Turning to small business, as you know it has been very hard hit. I have some charts in my testimony. There were fewer startups and a lot of stress among existing businesses. Why are there fewer startups? Well, obviously when you go into recession it is just not as attractive to try to start up a new restaurant, a new drycleaner, whatever it is, a technology company. Those things have been much less attractive in these recession conditions that we have had.

Another issue is the loss of homeowner equity. Of course, we have all experienced that but small businesses typically will take money out of their homes or they will pool together. A few partners will get together, get a loan against the value of their home to fund a startup. And so that money has not been available. Also, bank credit, which has been tightened and then loosened as Ms.

Velázquez said but it is still more difficult to get funding if there is a lot of uncertainty if you are a small business. So lack of sales, lack of credit, those have been the things that have hurt on the startup side.

Now, there are concerns about regulations, taxes and the deficit. I have concerns about all of those things, so those are important issues. Let me talk about the regulation issue. The one that has gotten the biggest hit has been the Affordable Care Act. And there is just tremendous opposition to that which seems out of proportion to the content of the act itself. There are no requirements on businesses with 50 or fewer employees to provide health insurance, nor are they required to pay a penalty if they do not. And that is actually most small businesses. So they are not really affected that much.

Not only that, there was a report, which I had not seen when I wrote my testimony, by the Kaiser Family Foundation. Of the companies between 50 and 100 employees, 92 percent of them were already providing some kind of health insurance benefit. So we are not telling them, start anew and do something you are not doing. And many small businesses, those under 50, could get some subsidies and actually help them along. So the Urban Institute study, for example, argues that actually small business on balance might be helped by the Affordable Care Act.

I understand why small businesses say, this is a problem. This is terrible. This is all this regulation. That is what they hear all the time. That is what everybody is saying.

I am running out of time. Let me just say what could be done. Obviously, if we can improve the overall economy we will improve small business as well. So some modest continued stimulus. I think it was a good idea to do the payroll tax cut and we should extend that for the whole year, find a way to do that. I think on the credit side we should work with bank regulators. We do not want to give away money and have a lot of bad loans again. So let us not go back to that. But I think banks and regulators, there is some demand for credit from sound businesses and so more could be done in that area.

I think the SBA has done a good job and I think we should think about maybe ways to get a little more money to the SBA to provide guarantees or to do some direct lending. I would also mention that the Startup Act of 2012 has been proposed in the Senate. It has got a number of different things, and I do not agree with everything in it, but it does suggest we should simplify and streamline some of the permissions and regulations, some of which happen at the state and local level. That is an area where maybe the federal government and state and local governments can cooperate. I think it would be good to get more visas for skilled people because I think they are job creators, and we need to do more to help the skills of the American population so that small businesses can find the people they need.

Thank you. I will stop there.

Chairman GRAVES. Thank you, Dr. Bailly.

Our next witness finishing up today is Mr. Mike Fredrich. He is president at Manitowoc Custom Molding. Did I say that right?

Mr. FREDRICH. No, but that is okay.

Chairman GRAVES. Oh, I am sorry.

Mr. FREDRICH. Nobody says it correctly. It is Manitowoc.

Chairman GRAVES. Manitowoc.

Mr. FREDRICH. Yes.

Chairman GRAVES. Manitowoc. He is testifying on behalf of the Small Businesses and Entrepreneurship Council. Mr. Fredrich has owned MCM, a custom molder of precision thermoset plastic parts for 10 years. He received his degree in nuclear engineering and his MBA from the University of Wisconsin in Madison. Thank you for being here today.

#### **STATEMENT OF MICHAEL J. FREDRICH**

Mr. FREDRICH. Thanks a lot. I am not a doctor, by the way. Just a regular guy.

Chairman GRAVES. Mike is pointing that out to me. I apologize for that.

Mr. FREDRICH. Thanks a lot for having me here. It is an honor to come and speak before the Committee.

As the chairman said, I have owned the company for 10 years and the company was started in 1983. It has had two owners. The guy who started it and I bought it from him in 2001. And none of our products show up in anything that you would ever notice because they are all products that go into somebody else's product. But we have a good diversity of industries that we sell to. We have in consumer products maybe 25 percent of our business; industrial, 35; aerospace, 20—that is growing; and defense, 15. And then we have some cats and dogs.

So we have a pretty good view of how the general economy is doing. And I can tell you that last year, 2011, we had the best year we ever had. So you would think everything is rosy. I am happy. I am here to report to you that the psyche of small businesses is good and I just cannot say that. I have to say I have never been more concerned with our prospects as a company than I am right now. And I used to worry about all sorts of things that are related to the business—customers, serving customers, on-time performance, quality, things like that.

But now I spend the majority of my time worrying about the country because we are here. And unlike multinationals we cannot diversify out of here and we are stuck and we have got some bad, bad things going on in this nation which will affect everybody, not just small businesses but everybody. But it will affect small businesses. So when asked to do this I highlighted some of them, some of the areas which are going to affect us.

And, you know, regulation is an issue and you say, yeah, everybody is worried about regulation but here are some things that affect us. Dodd-Frank, for example. We deal with a bank in Green Bay. It is a privately held community bank. So I called the owner, who I know. I have known him for 20 years. I said, "Bob, how is this Dodd-Frank thing going to affect you?" He said, "You know, I do not know. They are still writing it."

The obvious question is what did everybody vote on? But it is not going to be good. They have one compliance officer for the entire bank and this is just more red tape compliance that will make it difficult for small businesses whose primary source of capital by

the way are banks, commercial banks. And I like dealing with community banks because at least the people make the decision that you are talking to. So that is one area that I am worried about.

Health care is another one. We just pre-priced our health care insurance and you are right. A lot of the small businesses between 50 and 100 people have insurance. We have a high deductible HSA plan and this year—it is hard to go out and replace these things and get quotes because you have to do a survey of everybody. But we did that this year because we wanted to try and get a better deal. So we went to five new companies that were not—that were new to us and asked them to quote on our business. Every one of them, all five quoted 85 percent premium increase, which is the maximum they can quote. I do not know if that is a Wisconsin law but in Wisconsin they can quote 85 percent which means they did not want the business. The company carrying it right now raised the price 14.5 percent for the premium and the maximum they can raise it according to state law is 15 percent. So they raised it the maximum.

So what we have is a situation where we have no competition anymore from carriers, from insurance providers because they are just not going to quote. I think there is so much uncertainty with that that they are holding firm. And the people who are stuck with us, the one company, they can raise it 15 percent a year and that is probably what we are going to see. So that is a concern.

The other issue I have is—I am running out of time—inflation. And there has not been much but there is going to be. Has to be. If you look at what the Federal Reserve has done, they have created a bubble of money which eventually will flow into the system and create inflation. It will raise our prices of raw material. Our raw material is 45 percent of our cost and you can say, okay, well, just pass it on to your customer. It does not work that way. Sometimes we have contracts and they often have other opportunities to source that either domestically, change the material, or source it internationally which is more likely going to be the case. So I am worried about inflation.

Dependency. We have a country that is becoming dependent on the federal government. I have seen this in our business and there is a new dependency class that I call the “happily unemployed.” Their job is to stay on unemployment. And I know this because every Friday they come into our place because they have to show that they are actively seeking work and what they are really actively doing is trying to stay on unemployment. And they are very happy there. You know, they work part-time. They work for cash. They get food stamps. Why work? And I know jobs are available in Manitowoc. Good jobs. Manufacturing jobs. Cannot fill them. Cannot fill them. They are \$11, \$12, \$13 an hour jobs. Cannot fill them. No applicants. That is a problem.

And finally, my biggest fear is the federal debt because that has the potential to get us all. Forget all the regulations. All the little nibbling around the edges. If you do not get a handle on federal spending and deficit spending we are all gone. We are past Greece. Do not use Greece as an example. We are past Greece. People will still lend us money. That is the only difference. But if you look at the statistics, we are worse than Greece.

That concludes what I have to say. And thank you very much.  
Chairman GRAVES. We will start questions and we will start out with Ranking Member Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Baily, in your testimony you highlight the important role that startups play in driving economic growth. And according to SBA data, less than a third of SBA lending goes to startups. Are there ways to change this trend and encourage lenders to make more credit available for startup businesses?

Mr. BAILY. Yes, I think there is a case. Startups are really important because a lot of small businesses fail. There is a lot of turnover in small business. They create a lot of jobs but there are also those that do not succeed. So we need that flow of startups to keep employment growing.

It is obviously difficult to get money if you are a startup because you do not have a track record. And as I mentioned earlier you used to be able to use real estate collateral and now it is more difficult to do. So I think if it is done through either loan guarantees or through the direct lending program, a small business bank would be a possibility, which would not take a lot of money but could provide much needed additional funding for potential growth companies that would help our economy.

Ms. VELÁZQUEZ. Yeah. You mentioned, Dr. Jacobe, that we have not seen the number of startups this time around during this last recession as we saw in the '80s, '70s, and '90s. And a lot has to do with access to capital. You mentioned in your testimony that real estate represents the single largest source of collateral for loans to startups. And the drop in real estate prices has significantly affected the availability of credit for these firms.

So with housing prices unlikely to recover in the immediate future, what should be done to take the place of this asset in securing capital for startups?

Mr. JACOBE. Well, that is a hard question. I do not know if we can operate on a very different model. I do think that there are many small businesses that provide a good opportunity for the private sector so I think private sector banks. I know some folks on Wall Street that are actually making money by packaging loans from small businesses. So we do have other resources, people willing to take risks on a small business if it is a good bet.

Ms. VELÁZQUEZ. Would you see—what we have seen and the senior survey of loan officers and the fed report that was just recently released show that credit standards have been eased and that more credit is flowing to mid-size and large firms.

Mr. JACOBE. Right.

Ms. VELÁZQUEZ. The problem and the gap is on startups.

Mr. JACOBE. On the smaller size.

Ms. VELÁZQUEZ. And they are the ones that really create the jobs in this country. So would you see a direct lending role for SBA?

Mr. JACOBE. Yes, I would.

Ms. VELÁZQUEZ. Okay. Mr. Baily, according to a Kauffman Foundation survey, 40 percent of the respondents said that the biggest obstacle in the way of high growth companies is finding qualified people. Twenty-one percent said that managing fast growth; accessing capital 16 percent; and the sluggish economy, 13 percent. They

mentioned that those are all obstacles. Regulatory uncertainty and taxes were only 3 percent and 4 percent, respectively. Why do you think there is such a disparity between this poll and the Gallup poll about the top conditions facing companies?

Mr. BAILY. I mentioned what I would point to as the main reason and that is that everybody is talking about regulation. We have a lot of discussion on regulation in this election year. I think there are things that one could do to improve the regulatory environment, so I am not saying I want to dismiss the potential for streamlining regulation and making it easier for small business to operate. We probably all support that. But I do think this regulatory issue has been blown out of proportion.

I have done a lot of comparisons between the U.S. and other countries and the U.S. is still pretty high on the list of countries where it is relatively easy to start a new business. If you look at the World Bank data, it is much harder in China or places like that. So we are still a good place. I still have a lot of confidence in this country as a place to start a business and where enterprising people will be able to. And yes, we should do whatever we can to make sure that the regulatory environment is doing its job properly and not getting in the way of growth. But I think the reason it becomes such a football is because that is what people want to make it.

Ms. VELÁZQUEZ. Dr. Jacobe, will you care to comment?

Mr. JACOBE. Well, polls will differ. And what we have done is we tried to ask a series of different questions over time since last year. And I think it is clear that there is a psychology that has developed. And you can argue about the reality. The psychology is that, and we have actually done some individual interviews with small businesses just recently on a sort of long-term, sort of long interview. And they come to this without urging. So whatever the psychology is, it seems a positive if that fear could be halted for some period of time. Normally, regulations do not play this big a role.

The problem is that this sector is so threatened, so weak. We have been four years in this process and people are recovering but it is a slow recovery and small businesses are struggling. And so things that they normally would be able to go through and work their way through are much harder right now and I just think that has raised the issue.

Ms. VELÁZQUEZ. Thank you. And I do not know but maybe anyone who would like to answer this question, but again it might be the psychology explanation because people are saying that community banks—and your community bank, you just mentioned—do you know how much assets does it have? You are from United Bank?

Mr. FREDRICH. I do not. I consider it the largest commercial bank in Green Bay. I do not know how many millions. They have to be \$300, \$400 million. I am guessing though.

Ms. VELÁZQUEZ. So no more than \$1 billion in assets?

Mr. FREDRICH. No. No. No.

Ms. VELÁZQUEZ. Right? So am a member of the Financial Services Committee. I was involved with a Dodd-Frank regulation and every place we go when you listen to bankers the first thing that they say if they are community banks is that it is having a nega-

tive impact in their lending practices because it is creating uncertainty. But the fact of the matter is that community banks for the most part are exempted from the regulations of Dodd-Frank. Those banks who have assets less than \$10 billion are exempt. So community banks are the ones lending to small businesses. So when we hear that small businesses are not getting access to capital and we blame Dodd-Frank, I want to invite people to really go to the law and review if those regulations will apply to those banks.

And I yield back.

Mr. FREDRICH. It is not that—

Chairman GRAVES. Go ahead.

Mr. FREDRICH. It is not just Dodd-Frank. I mean, I would not want to be in the banking business based on the amount of regulations and control that they have. And I will give you a good example of the same bank. They did not need to but they took some of that TARP money and they tried to pay it back. Would not let them. No. You cannot give it back. Your ratios were good. Did not have to take it. You cannot give it back.

Ms. VELÁZQUEZ. Well, the TARP money for those community banks was to provide access to capital to small businesses, not to pay back.

Mr. FREDRICH. They did not need it. They have plenty of access.

I will give you another one. There used to be a publicly-held bank and Sarbanes Oxley converted them from public to private which also restricts their access to capital which restricts their access to lending to small businesses.

Mr. FERRARA. Can I address this since she asked if anybody could answer this? I do not think psychology has anything to do with it. You have got to create a booming economy and the psychology takes care of itself. But the recovery is—the problem is the recovery is long overdue and whatever signs of life in the economy there are it is too little too late.

The National Bureau—the statistics show that since the Great Depression, recessions in America on average have lasted 10 months. The longest previously was 16 months. Here we are more than 48 months after the recession started and there is still no real recovery. Moreover, you cannot say, well, it is because the recession was so bad. Historically, the worse the recession, the stronger the recovery. So based on these historical standards we should be nearing the second year—the end of the second year of a booming economy by now. And it is the fact that it has not—there has been no real recovery. That is what is destroying the psychology of small business. If you follow pro-growth economic policies you will get a booming economy and small business will have fabulous psychology.

Ms. VELÁZQUEZ. So, Mr. Ferrara, what you are saying is that this administration did not know how big a hole was dug by the previous administration. Right?

Mr. FERRARA. No, that is not what I am saying.

Ms. VELÁZQUEZ. And the stimulus package that we put in place was too small to produce the kind of results that were needed given the big hole that was dug.

Mr. FERRARA. No, that is not what I am saying. My estimate, well, no, I would never say that. My book, America's Ticking Bankruptcy Bomb shows just the opposite.

Ms. VELÁZQUEZ. I understand. I understand.

Mr. FERRARA. I can tell you exactly how many jobs were created by the stimulus. It was 0.000 because if you take a trillion dollars out of the economy and spend a trillion dollars back into the economy, you have not done anything for the economy on net. It is old fashioned, outdated Keynesian economics which is a proven failure. In fact, it is probably a drag on the economy because the private sector will spend that trillion dollars more efficiently than the private sector.

Chairman GRAVES. Mr. West.

Mr. WEST. Well, thank you, Mr. Chairman. Thank you, Ranking Member. And thanks for the panel for being here.

It is very interesting what I heard at the beginning and by the time we got to the end when we talk about psychology. You started out we are talking about optimism. By the time we got to the end we are talking about uncertainty and lack of confidence. So my question is, especially I have Christina Hebert here who is a chief operating officer of a small business as part of the marine industry of South Florida. She is also an executive director there. Let me read you a summary of a report that she just gave to me that follows up from the Fort Lauderdale Boat Show, which is the largest boat show in the world, as a matter of fact. "The recreational marine industry needs assistance facilitating communications with all agencies whose regulations affect the industry."

Second summary point. "The United States is unable to attract 90 percent of the large yacht economy to this country due to the onerous regulatory environment. Attracting this business to the United States would mean a massive influx of spending and jobs."

So I hear about optimism. I hear about lack of certainty. I mean, lack of confidence and uncertainty. What can we do up here in Washington, DC to bridge the gap between those two points?

Mr. JACOB. Well, what I was trying to say is that right now we have an opportunity and the optimism is very tenuous. That is why I think it is a very fragile kind of optimism. We had some of it a year ago and we need to do something to keep the momentum of that optimism going. And that is why I was saying just freeze regulations because whether you want to agree with it or not it is having a behavioral impact and in this sense perception is reality. And small business owners are very concerned about regulation. And I think anything we can do to help their psychology right now, we can start to overcome some of these kinds of things and the kind of thing you were just talking about.

Mr. BAILY. I would just say that I think those regulations about yachts have been in place for a long, long time. So I do not think this is something new. I do not think it is something that President Obama did.

Mr. WEST. I did not say anything about administration.

Mr. BAILY. No, you did not.

Mr. WEST. I will talk about fixes.

Mr. BAILY. I do not know enough about it. It may be we should be able to simplify that regulation and make it easier to build a yacht.

Mr. WEST. What I am saying is not just specific for this industry. We are talking about an environment out there where people are saying it is an uber regulatory environment that is constraining the growth of our economy in this country. So what I am asking you real smart guys because I was just a paratrooper in the Army, what are the type of things that we need to be doing coming out of Washington, D.C. to turn this around? Because as Mr. Ferrara said, when you sit back and you look at pro-growth economic policies, I do not want to see us be like Japan and start down the path of 9 or 10 stimulus packages and we have a lost decade. So what should we be doing to go and build upon this optimism and get away from this lack of certainty?

Mr. FERRARA. Can I address that?

Mr. WEST. Sure.

Mr. FERRARA. I discuss this in my book and I served on the White House Office of Policy Development under President Reagan. And I went back and looked at what did he do to address the enormous crisis we had at the end of the 1970s which was arguably even worse than this crisis. You ended up with double-digit unemployment, double-digit interest rates, and double-digit inflation. There were four components he campaigned on and implemented once elected. One is reduced tax rates to maximize the incentives for production. Two was reduce regulatory burdens to reduce the costs on production. Three was to reduce government spending to reduce the drain on the private sector. And four was a strong dollar monetary policy, which serves to enhance investment because investors are confident they will not lose the money because of a declining dollar or because of cycles of boom and bust due to unstable monetary policy.

Those policies worked spectacularly. I call it the most successful economic experiment in world history. By 1982, the economy took off on a 25-year economic boom, what Art Laffer and Steve Moore called in their recent book "the greatest period of wealth creation in the history of the planet." Twenty million new jobs were created in the first seven years alone. Fifty million jobs were created from 1980 to 2007. Recently that was reported in the Wall Street Journal. So if we would restore those pro-growth policies the economy would take off at another long-term boom within a year or so and that would be a way to solve the problem.

Mr. BAILY. We also had pretty good growth during the '90s during the Clinton years, let me remind you. In fact, maybe even slightly better growth. And President Reagan was a practical man. You know, he cut tax rates very heavily. He saw the big deficits that came about and he agreed to actually some very substantial tax increases that followed when he realized he had overdone it on the tax side and that is what we have to do now. Obviously, we need to control spending. Of course we do. But we cannot, I agree with you, we cannot run these huge budget deficits and we have got to attack that from both sides, the spending side and the revenue side as President Reagan did.

Mr. JACOB. And let me just add that there is an immediate situation and there is a longer term kind of situation. And what I was trying to say with a moratorium is that we really ought to take advantage of this opportunity with some increasing optimism out there and try and do something immediate. There are all kinds of other solutions, part of which is housing. But the immediate situation is we will lose it if we do not act quickly.

Mr. WEST. Mr. Chairman, if I could ask one quick one. Could we have reinstated Glass-Steagall instead of going the direction of the Dodd-Frank?

Chairman GRAVES. Yes.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Ms. Hahn.

Ms. HAHN. Thank you for holding this important hearing. And I will tell you I am still sort of new around here. I was just elected to Congress last summer in a special election. But I love being on this Committee. I think the Small Business Committee is one of the more important committees back here in Congress because it really is critical, I believe, to the growth of our economy, getting things back on track in this country, creating more jobs. It is really about small businesses.

And since I was elected last summer I have made a point of touring and meeting with small businesses in my district, probably close to 100 now individually, and talking to them about what I think we are trying to get at in this Committee and in this Congress, is what can the federal government do or not do to really encourage growth in our small businesses, encourage hiring, and really help them do what they do best. And you know, as you all know there is a difference in small businesses. I would like to ask Dr. Jacobe later in his polling did you differentiate between the large-small businesses and the small-small businesses because I do think they have a different perspective, particularly when it comes to regulations.

And I think you are right. I think all of us want to find those regulations which may be burdensome, which may be out of whack, which might do better to be tweaked or not in place. But I for one am not interested in removing regulations that are there solely to protect the consumer or there to protect the health and safety of the worker. I am not interested in that. But if we can look at other things that might be beneficial I think we are all willing to do this.

One of the things that I kept finding out when I talked to my small businesses, two things which your poll actually pointed to. The second and third one was lack of consumer confidence and lack of consumer demand which between the two of them is about 27 percent. So regulations was 22 percent. So to me that is really the bigger issue that we need to focus on. What can we do to bring back consumer confidence and consumer demand? I participated in the Small Business Saturday on November 26th, which I hope we make that a bigger deal this year. Every one of the businesses that I walked into, small businesses, they said, "Congress member, we need more consumers. I want more people coming through my doors to buy my products. Because when that happens I can hire more people and I am willing to hire more people but I need people who have their jobs. I need people who are not losing their homes.

I need people who are making decent wages. I want consumers. That is what is going to help my small business.”

The other thing I found overwhelming was a lack of access to capital. That seemed to be really just a common theme with all my small businesses. They did not like the fact that we required way too much paperwork to even apply for a loan so I have introduced legislation which will cut down paperwork and expedite approval process for loans under \$250,000. And credit unions. Community banks and credit unions. Credit unions, you know, under regulations are not allowed to lend more than a certain percentage of their capital. They would like to be more on par with banks. So I have also co-sponsored legislation that allow credit unions to loan more capital which I think will benefit small businesses and I think it brings back that in our community we know our community banks and our credit unions.

But beyond that, Dr. Bailly, you touched on it a little bit. I think it is the startup businesses. By the way, what we are finding in new statistics is that some of these people that got laid off through no fault of their own, they are now looking to be entrepreneurs and innovators and start up their businesses. I think it is terrific. But what else can we do to help these startup businesses survive, thrive, and being to hire people because we know that the biggest growth in hiring is going to come from our small businesses, not our large businesses. What else can we do specifically?

Mr. BAILY. I am not sure I have got a lot that is different from what we have already talked about and I think I would agree with the things that you have said is what is needed is access to capital and they need more consumers so we need to follow a sound policy for the economy overall so that we begin to get that overall growth and we get more people coming through the door. Those are the main things that we need to do.

I said in answer to an earlier question, if we can get more money coming from our small community banks, which are not so affected by—not really affected by Dodd-Frank and I think the Small Business Administration. It is not huge but I think that is playing a useful role also.

Ms. HAHN. And Dr. Jacobe, and I know regulations, we are tackling that issue in this Committee. I did not hear that from one of my businesses that I have talked to. They were really more about access to capital and more customers. Did you differentiate in your poll between the large small businesses and the small-small businesses in terms of the burdensome regulations? And besides health care, are there some specific regulations that you have uncovered in your polling that businesses are pointing to?

Mr. JACOB. Well, we did not really break out the regulations by size. We call it sample size limitations on some of those kinds of questions. What we know is that business that, say, have more than \$2 million in revenues or assets are more optimistic and tend to be more optimistic about credit than the ones that are smaller than that. The others tended to be dependent on housing finance as part of their sort of capital source and entrepreneurship and all that kind of stuff. And taking the housing finance system as it stands now has really hurt small business. Some kind of change to the housing finance system would help a lot. We will look at that

but again, as I said, it is a sample size kind of problem and it is not unusual that they would not necessarily mention regulations because they have a whole lot of things on their mind when they are talking to you.

Ms. HAHN. Thank you.

Chairman GRAVES. Mr. Schilling.

Mr. SCHILLING. Thank you, Chairman.

I guess being a small business owner and actually currently still having my family run the small business I have got to disagree with the statements about regulations are not affecting our businesses because I truly believe they are. And just like the gal before me, the congresswoman, I just had a small business meeting just this past Monday. And I had a small business with 33 employees that they are in the process of going under. They have had no deaths, no major accidents, the business has been in place for I think 35 years. They do about \$3 million a year in business and OSHA has come out and fined them left and right. The first one they had was taking their forklift trucks and forcing them to switch from LP gas over to electric.

But, you know, just to give you an idea. This is coming from the real world. These are real numbers that I am going to be telling you about and these are factual numbers coming directly from my business. Back in January of 2009, I own a pizzeria store and cheese has gone up 40 percent. Back in 2009, mushrooms, from 2009 till today have gone up 44 percent. Pork has gone up 32 percent. You know, the problem is that I cannot in a downturn economy, I cannot turn that over to my customer. And yet we have gas prices that are sitting at \$3.50 to \$4.00 per gallon and yet we will not allow for the Keystone pipeline to be brought into the United States of America. We are going to send that over to China.

But I guess the thing that I wanted to get at is with the Affordable Health Care Act—some call it Obamacare, call it what you will—but you indicated that a lot of the customers, folks out there have less than 50 employees and they really do not need to worry about being forced upon the plan. But my concern is the fact that the people with 53 to 60 to 62, the people that I have talked to have said, look, you know what? We are just over the threshold. Guess what they are going to do? They are letting people go. They are going to get under the part that is going to force them to be on the plan. So I think that we have got to take all that into consideration.

When we talk about the jobs created under the administration, you know, the fact of the matter is under the administration we have actually lost 1.6 million jobs since this administration has taken over. You know, if you have a dollar and you lose all of it and then you find a dime, well, you have a 10 percent increase in what you had so we have got to be really real. And I was happy to see that you, Mr. Jacobe, that you were talking about the people that have quit looking for work because that is important because we are closer to 20 percent. We can all point fingers back here and there but I think something else that we have got to do is we have got a bunch of bills that are bipartisan bills that are sitting over in the Senate right now. And what we have got to do is all of us take our democrat and republican, you know, we are here as U.S.

members of Congress and what we have got to do is we have got to come for some solutions for the American people. And I hate to go on a rant but this is—when I am hearing some of this stuff, being right in what I call the final three feet of the business and I hear people over here telling us that the regulations are not adversely affecting small businesses in the United States of America, I cannot disagree with that more than anyone.

And another thing we talked about a little bit is the fact that we have access to capital. You cannot have small businesses if you do not have that access. I had a gentleman this week that I talked to that basically what is happening is they want him—he wants to start up a restaurant. They want 50 percent down. He does not have 50 percent down. So we have got to figure out a way to find some solutions. We all know there is a problem and I do not believe it is more stimulus. I am sorry. You know, the administration told us that it was spending \$787 billion that we were going to keep unemployment rates under 8 percent. They also told us if we did nothing that today we would be sitting at 6.5 percent. So it is not working and throwing more of my kids' and my grandkids' money to just continue to spend it away I do not believe. What we have got to do is what our job is is not to spend the taxpayer money. I believe it definitely is to create certainty. And that is to get all the ridiculous regulations. And we all want clean air, clean water, and all that stuff, but what we have to do is when they are coming out to regulate our farmers, the dust that they are putting up in the air, we have got to say, hey, wait a minute. Come on. Where are we going with this?

But I think the key here is to find solutions to the problems and things that are going to really definitely help to fix the United States of American and keep jobs here rather than giving incentives for them to move jobs outside of the U.S. So I do not really have a question but I had to kind of speak my mind on that. And that is coming from a small business perspective. So thank you and I yield back my time.

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. The Small Business Committee usually is a bipartisan committee or historically has been and I am sure we will get back to that. Thank you all for being here. I am sure you do not want to hear my political talking points so I will just ask a few questions and take advantage of the fact you all are here.

Mr. Jacobe, if you could go—your graphs are very illuminating and I think very helpful to give us a perspective. Do you have access to data that goes back further to get a more historical? Because it looks like we are seeing the run-up. I would like to see as we recover where we are getting back to the historical norm because as you all have pointed out I think perception becomes reality. Certainly it is in our business and it is now becoming true for small and large businesses in this country. Do you go back further in your data?

Mr. JACOB. We have a lot of different data sources but the daily measurement only goes back to January 2008. So my reference is to 2008, the time just before or as the recession started.

Mr. SCHRADER. That is kind of an unrealistic era and obviously led to the crash. So I was just trying to get perspective.

Dr. Bailly, with regard to—you co-authored a Brookings deal last year, I believe, or two years ago in 2010, and talked about economic additions and not being precedent or conducive to businesses being able to get back on their feet or start up. Given this Committee and its area of expertise, what should be we doing do you think with the SBA and some of these policies and programs to really get things going?

You have to push your button, sir.

Mr. BAILY. I have to push my button. Thank you.

Mr. SCHRADER. We are pushing yours but you might push ours once in a while.

Mr. BAILY. Oh, do not worry about my buttons. I am used to having them pushed.

Mr. SCHRADER. All right.

Mr. BAILY. With regard to the earlier questions, it is important to take a hard look at the regulatory environment for small business and make sure that we are not putting in place or we do not have in place regulations that are really going to discourage growth. So I think everybody can get onboard with that. That is a bipartisan thing. I think it is part of the startup act that I mentioned that is being sponsored in the Senate and there are other bills being sponsored in the Senate. So it is not like I am sitting here saying, oh, you know, regulation is always just great. I think we can improve regulations.

Mr. SCHRADER. How about my question, Mr. Bailly?

Mr. BAILY. I apologize.

Mr. SCHRADER. I have limited time.

Mr. BAILY. You have limited time.

I think the things that we need to do right now are do the best we can to get the overall economy going because that is eventually what is going to help small business. So that means dealing with the budget crisis and getting some modest stimulus in 2012. I think for small business specifically we have talked about access to capital. That, I think we are all agreed, is a key item and that has to come from private banks and make sure that they are doing what they need to do to provide capital to small business and the money coming from SBA is adequate to provide a supplement to that.

I think that if we could—I think there is more that could be done to get more worker skills in place and I think we are not doing a good job right now with the folks that do not go to college. And there are some technological advances were we looking for a quick fix. It is not a quick fix but there are new ways of providing skills to workers. The Army is doing it, for example. They are providing skills to some of their recruits. I think businesses could learn a lot from that and the government could act as a facilitator to get people together and say let us find out how we can train these workers, give them the skills that they need so that they can perform the jobs that small business, and indeed, larger businesses are looking for. Because skill shortage really is a problem. I mean, we hear reports there are three million jobs out there that are not being filled because the skills are not available.

Mr. SCHRADER. Good. Those are very concrete. I appreciate that. Real quick answer if I can from each of the panel talking about everyone has referenced the huge debt and deficits we face when they argue over the causes and effects of those. There are several different proposals out there to deal with that and I happen to believe, and I am curious if you do, that with all the money sitting on the sidelines not invested people are concerned about where the country is going. Are we going to end up like Greece? I think we are already there. I agree with those statements, frankly.

The Bowles-Simpson plan has had a lot of bipartisan support. Did not quite make the grade with supermajorities but we have done a pretty good job bipartisanly in cutting discretionary spending. We may not like the heavy hand approach on the second cut here but discretionary spending is on a course downward. Maybe not as far as some of us would like but certainly more than others. But the big dogs are revenue and entitlements. Do you agree that revenues in some form or another have to go up a little bit and entitlements need to be cut significantly to get our country back on track? Just a yes-no from you guys if that is possible.

Mr. FREDRICH. I think revenue is absolutely important. And if you wanted to raise revenue you would lower taxes. It works every time.

Mr. SCHRADER. Like their tax reform proposal? Talk about—

Mr. FREDRICH. I do not know what it is but I will tell you if you lower taxes at the margin, which is where it counts, you would raise revenue. If you are worried about small business startups and capital you would make the capital gains tax zero. But I do not think there is any incentive to do that.

Mr. SCHRADER. If you could look at that report I sure—because you are a good small business guy. I would really love to get your opinion on their tax reform piece. If you could do that for me at some point.

Mr. FREDRICH. I would be happy to.

Mr. SCHRADER. If you do not mind. Big request, I am sorry, but if you could it would be cool.

Mr. FREDRICH. Sure.

Mr. BAILY. I like the Bowles-Simpson proposal. Some of them were not as specific as they might have been but I think it would have been a great framework to deal with the budget. And it proposes higher revenues and controlling the growth of spending. And I think that is what we absolutely have to do.

I think they do propose lower tax rates, so lower marginal rates. But in return for that you have to give up something because that does not give you more revenue. You have got to give up some of the special tax breaks or something like that if you want the lower rates. And I think that would be a great thing to do.

I also would say that there is a proposal by Domenici and Rivlin, which I think in some ways I like even better than Bowles-Simpson. But either one of those I would take as a basis for dealing with this problem.

Mr. FERRARA. I think the Simpson-Bowles points in exactly the right direction. The only way you can raise revenues in this economy is by lowering the rates and stimulating, creating incentives for economic growth. And I agree that you can go along with that

and reduce some loopholes and some of the—because when you lower the rates, a lot of those loopholes become completely unnecessary and can be eliminated. So that does point us in the right direction but I think that I like what Congressman Paul Ryan has been proposing in his budgets. He has a tax reform. Ten percent for families below 100,000. Twenty-five percent for families above that. And so I think that that is a stronger measure but it goes further in that direction. I think that is the right direction to go.

My entire testimony addresses entitlement reform and the whole point of the testimony in the book is that entitlement reform can be done in a positive way, that it does not have to involve how much are we going to take away now from seniors and the poor. That, in fact, if you do structural systemic reforms, change the way these programs operate, they are so old. They are so based on ideas from 100 years that you can produce programs that actually serve seniors and the poor far better but cost just a fraction of what the current approaches do. And those reforms can involve pro-growth incentives that would contribute to the economy as well. And we discuss that in detail in the book and some in my testimony as well.

Mr. SCHRADER. Thank you.

Mr. JACOB. I think the real solution is a very rapidly growing economy. I think there is potential there and I know I am not necessarily in sync with a lot of people on that. But we have not recovered as we said earlier from the downturn in any way like we should have. And that will change everybody's perspective if we really start going like we did after the Reagan recession. And to be direct, I do not agree with any kind of tax increases.

Chairman GRAVES. Mr. Wall.

Mr. WALSH. Thank you. Thank you, Mr. Chairman.

If there is anybody on the panel that disagrees with me say something. Are any of you four gentlemen at all satisfied with where we are at with this economic recovery? Is anybody satisfied with how this recovery is going?

Mr. FERRARA. Absolutely not. It is the worst economic recovery since the Great Depression. I have written on that recently at Forbes.com.

Mr. WALSH. Dr. Baily, are you satisfied with where we are at?

Mr. BAILY. I am not satisfied but I would say that the administration, the Obama administration should get a lot of credit for having turned things around. The banking system, the financial system did not fail. It was sustained.

Mr. WALSH. Are you, Dr. Baily, are you—

Mr. BAILY. The economy stopped falling. It fell like a stone.

Mr. WALSH. I will give you a chance. Are you satisfied with where this recovery is at? Yes or no?

Mr. BAILY. No, I am not satisfied. It is still too weak.

Mr. WALSH. Dr. Jacobe.

Mr. JACOB. No.

Mr. WALSH. Mr. Fredrich.

Mr. FREDRICH. I do not think we have had a recovery. So no. And that is a common perception.

Mr. WALSH. And as Mr. Ferrara pointed out, historically the more severe the recession the quicker and the more potent the re-

covery. And again, I think it is fairly safe to say that when it comes to economic growth and job growth, this is easily the most anemic recovery we have had since the Great Depression. And so what I want to figure out is why is that? What has this administration done or not done enough of or done too much of, we are all not satisfied with the varying levels of degree here with where we are at. Be as concise as each of you can be why do we sit here in the midst of a historically weak recovery if you, in fact, want to call it a recovery? Why are we where we are at? Try to be as concise as each of you can be. Let us start down at that end.

Mr. FREDRICH. I think we are actually living the 1930s all over again because it was a recession that was extended through government action. And there were just asinine programs started during that time period that kept this country in a recession until after World War II when there was a change in the Congress.

Mr. WALSH. So to paraphrase, too much government?

Mr. FREDRICH. Absolutely.

Mr. WALSH. Dr. Baily, why are we—what have we not done enough of? What have we done too much of? Why are we where we are at right now?

Mr. BAILY. I think we are where we are at because this recession is very different from the earlier ones in the post-war period because it had this incredible housing bubble and housing prices have dropped 30 percent. We lost \$14–\$15 trillion worth of household wealth. We do not have residential construction as a lift to the economy. Consumers do not have the value in their homes which allows them to feel more confident and spend more. And so I think the only thing that could have been done more was more emphasis on trying to turn around the housing market, while the truth of the matter is that is a very hard thing to do. And so inevitably we were going to get a long recession.

The other thing was that if we had not had deficits coming into this recession, in other words, when I was chairman of the Council of Economic Advisors we had a 2 percent of GDP surplus in the budget. And if that had not been squandered in two large tax cuts we would have come in with more ammunition to deal with this downturn.

Mr. WALSH. Mr. Ferrara.

Mr. FERRARA. I discussed in my testimony each of the four components of Reaganomics. And the reason we have no recovery is that Obamanomics is following the opposite of every one of those four components of Reaganomics. I talked about Reagan reduced the tax rates. Next year you have already scheduled in current law increases in the top tax rates of virtually every major federal tax. The only one left out is the corporate income tax which is already virtually the highest in the industrialized world and is already too high. Instead of reducing regulatory burdens we have increases in regulatory burdens. Instead of reducing government spending we have massive increases in government spending. Instead of a strong dollar monetary policy we have a weak dollar monetary policy. So that is why we have no recovery.

Mr. WALSH. Dr. Jacobs.

Mr. JACOB. The recessions since World War II and since the Great Depression have had a housing cycle embedded in it. This

time we had a financial crisis. I do not think people have adequately assessed the financial crisis and therefore have not adequately assessed what needs to be done to change that. But the big problem is the finance system is not working the way we want, particularly in housing. I think that is the key to the problem.

Mr. WALSH. Mr. Ferrara, one final quick question for you. Dr. Baily testified that Obamacare will actually help small businesses and will not increase their costs which I find mindboggling. Would you care to comment?

Mr. BAILY. Yeah, I think Obamacare is very detrimental to small businesses, already increasing health costs. In addition to the point that was made about companies just above the threshold, there is also a negative impact on companies just below the threshold that do not want to grow up to 50 and above. And so it is reducing job growth in that way as well. And what you have seen is instead of increases moderating they seem to be accelerating which is what I predicted in my book.

Mr. WALSH. Thank you. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. I want to go back to something that Dr. Baily talked about a few minutes ago and that Dr. Jacobe also mentioned which is housing. I used to build houses. One of the reasons I am here is that I used to build houses.

I have heard a lot of different ideas. We have had half a dozen or so federal programs designed to try and help the housing industry. I agree with you, Dr. Baily, that this is a crisis within this industry that we have not seen certainly in my lifetime or my dad's lifetime. I come from three generations of homebuilders.

So I guess since I have got fairly smart people on the panel, some of whom I might agree with philosophically and disagree with philosophically, I will ask you all the questions. We will start with Dr. Baily and then anybody else come in. What would you do? I am open-minded to ideas on how to fix the housing industry and maybe a corollary to that if you do not have any ideas of what to do is what should we not be doing? But I will start with Dr. Baily and we will just take it from there.

Mr. BAILY. I wish I had a better answer to give you. There have been a number of programs that have been tried, starting with the Bush administration. And I think those were generally good programs. The Obama administration has tried a number. There is a new one that is being announced today. I support many of those programs. I think they are trying to, I mean, the problem is we have very low interest rates but people cannot refinance their loans or they are underwater from it. So you have either got to wait this thing out for another year until the housing market really comes back or you have got to start paying off the people who are underwater. And I think there is a lot of, you know, a lot of reasons to be nervous about that. You would end up paying—nearly a quarter of the money would go to California since that is where a lot of the underwater mortgages are. So I do not know that there are easy solutions. I think the programs that have been tried are helping but they can only do a limited amount. And unfortunately, we have got to wait this thing through to some extent.

By the way, I agree with Dr. Jacobe that the financial crisis also contributed to where we are now.

Mr. MULVANEY. Let me press you on that because I think that may be where we are right now which is where the financial situation is also hampering recovery in the housing market specifically. You mentioned low interest rates. There have been low interest rates now for the last two or three years. Folks are not able to refinance in large part because of the regulations that exist on banks and what limits they can do on lending. So I hear what you are saying about waiting it out but unless we allow banks to flush these products through the system, allow housing to actually find a bottom, are we really ever going to get to the end of it?

Mr. BAILY. I agree we have to do that.

Mr. JACOB. The housing finance system, it is a long discussion. I go back to the days of the thrift lenders and the community lenders and that kind of thing. And a lot of what has happened had to do with the whole secondary market and the disconnect between finance and the actual borrower in the marketplace. And my solution is to tie those two together again. I think you need to create some kind of active community lending where it is profitable for a small bank or a credit union or a thrift to actually make a home loan, deal with the borrower, not have to send it off to some investor and all of these different processes that go through that have created a major disconnect in the housing finance system. And I do not think you can do that with the current housing finance structure which is with Fannie Mae and Freddie Mac. So something has to be rebuilt in the private sector that will allow homeowners and people to actually take some risk in the housing market for some period of time.

What we have done is we have created a situation where nobody profits from making a home loan. And that—

Mr. MULVANEY. Until you collateralize it, securitize it, package it and sell it off.

Mr. JACOB. Well, and you get a fee in that process. And if you can do a lot of them you get a lot of fees perhaps and refinance fees. But it is just a very difficult thing. You need to have community lenders who are invested in the community and who have an interest in making sure that you pay that mortgage loan off and that you start the process over again because we did that for many years and we destroyed it over the last 20 years or so.

Mr. MULVANEY. Mr. Ferrara.

Mr. FERRARA. What I would like to say is that if you try to focus on just the housing sector then I think there are no good answers. What government inventions will help the housing sector, I think there is no good answer. What I want to urge you to do is to focus on the general economy. If you create a booming economy by following pro-growth measures then the housing will take care of itself. So I think that is the basis of the solution. And the bottom-line on that is to focus on incentives for production. Incentives to maximize investment of production.

Mr. MULVANEY. Mr. Ferrara, I do not want to cut you off. I only have 19 seconds and believe me, you are one of the ones that I would typically agree with philosophically. And I am wondering if we are in a situation here where it is a unique circumstance where-

as, and I posit this just for sake of discussion, that our ability to create this environment that would lead to the economy that you have just stated, which is what everybody up here wants—it is a question of how we want to get to that—is severely hampered by the inability of labor to move to where the jobs are. And the housing market is saddling and anchoring this economic growth that we might be able to find. And unless we are able to allow, to find a way to allow capital markets to function again, to allow labor markets to function again, that we are not going to get to that point. I am not for government intervention for the sake of government intervention. I am just wondering if there is something that we could do to allow the natural force of the economy to do what you have just described.

Mr. FERRARA. Well, you focus on—see, the four principles of Reaganomics are based on fundamental economics. And that has not changed. And so the key is to focus on the incentives—taxes, regulations, monetary policy. What incentives are they creating? And how does that affect the overall economy? The fundamentals of economics remain. Businesses still start and exist to make a profit, to act in their self-interest. And so just take advantage of the fundamentals of economics and you would create another economic boom if you did.

Mr. MULVANEY. Thank you, Mr. Chairman.

Chairman GRAVES. Ms. Clarke.

Ms. CLARKE. Thank you, Mr. Chairman. And thank you, Ranking Member Velázquez. And I would also like to thank the panelists for their testimony today.

You know, must today the America's Sustainable Business Council in conjunction with the Main Street Alliance and Small Business Majority released a poll indicating that consumer behavior is the number one concern by far with 34 percent of respondents pointing out that this is the biggest obstacle they face. Government regulations were a distant third at 14 percent.

This coincides with what my constituent small business owners tell me is their number one concern along with access to capital. This meshes with the basic economic fundamentals. If consumer confidence is low, industry has no incentive to add fixed cost, which in this case would be adding jobs, which is why I am having a little difficulty reconciling in the somewhat vacuum-like argument being made today that government regulations are hindering small business from hiring.

So I have two questions. My first question is to the entire panel. Would you help me better connect the dots that point to government regulations as a bigger detriment to the viability of small business that would be stagnant or further dips in consumer confidence? And then to Dr. Jacobe, can you explain to me the difference between consumer confidence and a lack of consumer spending as concerns for small business owners? And I ask because if you add the two percentages, the sum of the consumer behavior makes it the number one obstacle facing small business owners in the Gallup poll.

Mr. JACOB. Should I begin? A couple things. I think it is arguable to say that major concerns on the part of small businesses are a lack of revenue, lack of consumers, lack of consumer confidence.

And as I mentioned, we went through several different kinds of questions trying to get at that. I think it matters how you ask the question and it also matters what the environment is, what people are talking about and all those kind of things.

I think, however, that however we ask the question that that comes up and that is something that, for example, you can do something about, whereas I do not think you can do a lot about some of those other factors that are affecting small business. It is very hard for you to drive revenue to a small business. However, all I am saying is that whether it is true or not, whether people want to make factual arguments or not, there is this perception that exists out there and in a behavioral economics context I am just arguing if you can help that perception, if you can help change that perception even for a period of time until the economy gets going better, until the small businesses are doing better, I think it is a plus.

Mr. FERRARA. Businesses look to the future, what is coming down the pike. And you have, for example, a very activist EPA that is on a regulatory crusade that is eventually going to reach down to all businesses across the board. If they are going to achieve what they say they are going to achieve, sooner or later they are going to walk in the door and they are going to say you cannot do what you are doing. And they do not want to, you know, an investor does not want to put a million dollars on the line or sign for a loan for a million dollars you are supposed to pay back if they do not know what is going to happen when it comes to—

Ms. CLARKE. That begs the question why small business owners did not just say EPA regulation. They said consumer confidence, consumer spending. This is what they said. We are not, you know, and I have yet to hear anyone in my district—and I have a small business-laden—we are talking mom and pops, who have said to me, “I am so scared that the EPA is going to come down.” They are concerned about who is coming through their doors each and every day.

Mr. FERRARA. Well, in your district they may not know about that yet but it is affecting other businesses and that is my opinion that you asked for.

Ms. CLARKE. Okay.

Mr. FERRARA. There is also the employer mandates negatively affecting businesses. We have discussed that before which it is not only the requirement to buy insurance but it is like what is coming down the pike and what is that insurance going to have to be to satisfy what HHS is going to demand to satisfy the mandate? And so that is a threat to even companies already providing insurance. Is this going to raise my costs?

Ms. CLARKE. Mr. Ferrara, I got your point but my time is limited. I do want to hear from Dr. Baily.

Mr. BAILY. Well, I think your sentiments are right. I basically agree with what you are saying, that it is really getting the customers in the door that is the biggest problem for small business and I think that is what they say. Yes, they have gotten concerned about the health care but actually existing plans are basically grandfathered in. So I think you should be reassuring your small business friends that they are not necessarily going to face a big

change as a result of the ACA and they may even get some benefits. But basically, consumer confidence, consumer spending. We look at what consumers do and if we can get them spending, then small businesses are going to feel better.

There is a chart in my testimony which shows—it is from the NFIB, and NFIB is not a big fan of regulation or the ACA. But if you look back at their chart, the level of concern about regulation was high when the economy was weak in the early '90s and it is high again now so I think if we can get the economy going that concern is going to fade off. It is not going to disappear but it is going to go down again.

Mr. FREDRICH. I think you have to divide the types of businesses. I think most of what you were talking about are retail businesses.

Ms. CLARKE. It is a blend.

Mr. FREDRICH. It is a blend. But when you think about it, for small businesses, especially retail ones, for people to come in their doors and buy something, those people have to have jobs. So the way I would look at it is how can I create an environment in this country where it is not so expensive to employ people vis-à-vis the rest of the world? And we are on the high end of what it costs to employ people. If you look at countries that we compete with, like China, Vietnam—

Ms. CLARKE. Not for long.

Mr. FREDRICH. There will be one right behind them. I mean, Bangladesh, India, there are lots of poverty in the world. So that is what you have to look at. You have to look at how could I allow our people in this country, our employers, to employ people? And let us reduce their costs. I am not talking about wages.

Ms. CLARKE. I was going to say you just implied that we should be competing with the wages of like Bangladesh or India which I do not think the average American could go for.

Mr. FREDRICH. No, we do not have to do that because we have an infrastructure here and we are much more efficient and productive than any other part of the world. So we do not have to compete on wages. We do not and we should not. But what you do is the regulatory burden is cumulative. It just makes it so expensive to employ somebody that it goes elsewhere.

I just bought the new iPod and I thought this thing is really cool. It was developed here. It is the neatest product I have seen. It is made in China. It was never made here. It went right there. We did all the brainwork on it to develop and we produce it in China.

Ms. CLARKE. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. King.

Mr. KING. Thank you, Mr. Chairman. You know, at first as I open this up I regret the gentleman from Oregon is not here. I hope someone passes him along the message. He seems to be pretty thin-skinned about partisanship. I was listening to the gentleman from Illinois' statement about running the pizza place and even though I am kind of happy that pork rice is going up 30 percent, I did not hear anything partisan in there except the phrase Obamacare. And I point out to the panel that to my recollection, and I think it could be easily referenced that that phrase was given life and momentum and perhaps coined by the president himself on

February 25, 2009 at the Blair House. Remember that health care summit that is there.

And so when I am looking through the polling results, the Gallup poll results, I am actually surprised at these results, Dr. Jacobe, in that I started a small business in 1975 and made payroll for over 1,440 consecutive weeks. I sold that business to my oldest son and it and a spinoff of it go on today dealing with all these government regulations. I am pretty sure if I asked two of my sons that are in that business now what the number one issue was, we would have probably gotten Obamacare as the biggest load that they would be facing. And I see that down there. Well, wait a minute. It is the new health care policy at 5 percent. Now, I am wondering if some of the people that said complying with government regulations at 22 percent are not also thinking of Obamacare at least as a comment of that. But I would ask you to speculate. If that had been phrased differently the way Mr. Schilling phrases it and I phrase it, what kind of a response do you think there would be a change up or down in that number of 5 percent on the new health care policy concern?

Mr. JACOB. Well, it is not real good to speculate on question design and responses. My guess is there is some mixing in that area. If you look on the testimony after those two tables, I have a part that talks about the worries and when we asked people why they were not hiring. And if you look down that list you see that potential cost of health care is the 48 percent and then government regulations at 46 percent in terms of where we allowed them to have multiple answers. Now, those answers come after statements about revenues and cash flows as major concerns of small business. But they are all there in the top five.

Mr. KING. Thank you, Dr. Jacobe. And I think you have added quite already to this. Just a quick read of the poll does not go as deep as what you have. And I would add to our background on this the special election in Ohio that took place a month and a half or so ago and was for the purposes of repealing the collective bargaining legislation that was passed there and signed by Governor Kasich. So I mean, we know that there were tens of millions spent to get people to the polls. It was a union-heavy turnout. Sixty-one percent rejected the collective bargaining language and initiative No. 3, right behind the initiative No. 2, which I have mentioned, was two exempt Ohioans by amending their constitution to the individual health care mandate. And that passed and they amended their constitution with 66 percent. So I thought that was a pretty powerful poll on the public's acceptance of Obamacare. Would you care to comment on that, Dr. Jacobe?

Mr. JACOB. I think that the way we phrased it in our question was the cost of health care. And the way most Americans and small businesses I think are perceiving whatever you say about Obamacare is in the cost of health care to the premiums.

Mr. KING. What is the average size of the businesses that were polled?

Mr. JACOB. Businesses that have less than \$20 million in revenues or sales. Most of them are under a million.

Mr. KING. The numbers of their employees, do you have that?

Mr. JACOB. No. I can give that to you but it is relatively small.

Mr. KING. Thank you. And I turn then to Dr. Baily and ask what would in your estimation be the grandest Keynesian experiment in the history of the world? The largest, most expansive, grandest Keynesian experiment?

Mr. BAILY. World War II.

Mr. KING. I did not expect that answer because I thought we were fighting to defend liberty and freedom and it was not a Keynesian experiment at all. And I have never heard it expressed as a means for our economy to recover.

Mr. BAILY. But it did.

Mr. KING. It did. We got very large government spending. That would be the president's theory as well.

How about we go with multiple choice here because that Keynesian experiment did not begin at World War II. We know that. It began with the initiatives of perhaps the Iowa president and then certainly with the New Deal of FDR. There was a follow-through of that under the same president all the way through. And then I will ask you this. Do you know when the stock market recovered from its peak in October 1929 when it finally got back to that level?

Mr. BAILY. No, I do not.

Mr. KING. Does anyone on the panel know that answer?

Mr. FERRARA. I think it was after World War II, I think. Yes.

Mr. KING. Mr. Fredrich.

Mr. FREDRICH. Well, I was just going to say 1946.

Mr. KING. 1954.

Mr. FREDRICH. Oh.

Mr. KING. FDR had been dead for nine years by the time the Grand Keynesian experiment came back ground to breaking even. And so that is a depressing thing to think about the Great Depression, how long it took to come back from the Great Depressions.

Mr. BAILY. If you give me a second crack at that I would say Europe is providing a very good Keynesian experiment. They are all trying to reduce spending and raise taxes and they are all finding they are going into recession as a result. So that is the other side of the Keynesian coin.

Mr. KING. Well, the Germans are doing pretty well and have all throughout.

Mr. BAILY. Yeah, but they did not do any contraction.

Mr. KING. That is true because they did not experiment in the Keynesian fashion that the rest of Europe did because they fear inflation and they fear interest rates.

But Mr. Ferrara, I wanted to ask you what—if we were to, as a former Massachusetts governor has advocated, repealed Dodd-Frank, the Community Reinvestment Act, privatized Fannie Mae and Freddie Mac, and repealed Sarbanes-Oxley, what do you think would become of our recovery?

Mr. FERRARA. That would be a very good component on the deregulation component of the four points of Reaganomics that I mentioned.

I just want to say on the Grand Keynesian experiment, World War II, check out the trends in consumer spending during World War II to see if that really was a Keynesian experiment. I think

you will find that it was not having any kind of Keynesian effect and that is why the recovery did not really come until later.

Mr. KING. And just in conclusion as my time is wearing down here, does anyone have the answer to where are the unemployment numbers. How many no longer are qualified to meet the category of unemployment? Does anyone have the answer on how many Americans are of working age who are simply not in the workforce?

Mr. BAILY. I think that is one up recently. I think that has been going up.

Mr. KING. Let me just respond to my own question then and that is I have tracked this for six or seven years and there are different ways to define it. So you say Americans of working age not in the workforce. That number, roughly not quite 14 million unemployed added to those from off the Department of Labor's website, I started at 16 and I went to where unemployment is no longer paid and where Walmart does not hire. That is 74. Over 100 million Americans of working age simply not in the workforce. I just think that is an astonishing figure and worthy of consideration. I think your book is worth reading, too.

Thank you very much. And I yield back.

Chairman GRAVES. Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman. Thank you, Ranking Member.

I do not want to oversimplify this but most of our decisions and opinions are based on real life experiences. I watched my parents operate a number of small businesses, one of which was an electrical contracting company, if no one was building they were not hiring. If people were not building homes, they were not doing any electrical work. If government buildings were not being built or retrofitted, they were not hiring. So I understand the question about government regulations and those concerns but are we overplaying the role of regulations compared to opportunity and demand? And if you can give a short answer to that I have another one also.

Mr. FERRARA. Well, you know, the thing is that if you get a booming economy then the prices of the homes go up. People want to buy homes. There is more demand for homes. And so the focus needs to be—the regulation is just one component of a broader array. It is one real component but it is a broader array. And so the real focus needs to be get the economy overall booming and you will solve the housing crisis. You will solve the consumer confidence crisis. And that is the best way to solve the fiscal crisis, too. You have got to have economic growth or you are never going to deal with the deficit. You are not going to be able to deal with the deficit until you get the economy booming again.

Mr. JACOBE. Let me just mention one number. According to our surveys, 29 percent of small businesses are hiring fewer people than they think they need. They are holding back. And there is a reason for all that caution. And what I am looking for is anything that can ease that caution, at least temporarily. Once they get more optimistic then I think what you said has a lot more power to it.

Mr. RICHMOND. Now, since you brought up optimism, does a dysfunctional Congress add or subtract to consumer confidence in this country?

Mr. JACOB. It clearly hurts consumer confidence. Our numbers from last year as to what happened in August when we almost talked ourselves into a double dip, clearly Congress can have an impact on the economy directly.

Mr. RICHMOND. Mr. Fredrich. Did I pronounce it right?

Mr. FREDRICH. You did.

Mr. RICHMOND. Quick question. I read some of your bio in that you took a leap of faith after 9/11 to start your own business. It reminds me of what my parents did. So my question to you would be as you were purchasing that company was the number of rules and regulations and the regulatory environment, was that a part of your analysis when you looked at it? Or did you look at balance sheet, the assets, the income, the debt, and the revenue?

Mr. FREDRICH. I did not look at the regulations. I can tell you that. I should have but, you know, when you are not in the business it is amazing what you do not know. And there are lots of things. But it has gotten worse and it has accelerated.

But can I answer your first question?

Mr. RICHMOND. Absolutely.

Mr. FREDRICH. About your parents and their business. The amount of regulation that goes into building a new building is just unbelievable. Not so much at the federal level but at local levels, too. And it raises the cost of building to a point where people do not build.

And the second point I would make is you should sponsor the repeal of the Davis-Bacon Act which forces people to employ union labor when I do not know if your parents, did they run a union shop or a non-union shop?

Mr. RICHMOND. They ran a non-union shop and then they had jobs that were also prevailing wage.

Mr. FREDRICH. See, they got discriminated against because they could have gone in at a lower price and said, look, we can do the same darn thing at a lesser rate. Oh, sorry. Sorry.

Mr. RICHMOND. Well, you mentioned the regulations for building. And I will just tell you as dreadful as 9/11 was and it highlighted our policies on terrorism and inadequate security at airports, being a survivor of Katrina highlighted the fact that you need real building codes. And you need to make sure that levies can withstand water and that we have some very basic standards. Do I think we can simplify the language we use in writing every document in this government? Absolutely. And I think that that should be how we categorize the conversation which is to simplify things as opposed to just say overregulating. But we need to make sure that we build safe homes that can withstand 100 mile per hour winds and things of that nature. And I think government does have to play a role in making sure that that does not happen so that we will have homes that survive earthquakes and we, God forbid, would ever have anything like Haiti. But building codes and those things make a difference. But I think the conversation and what would increase consumer demand and consumer confidence in this country is if we could get together and have a conversation about how we simplify stuff. How we make people really understand why is the tax code bigger than the Bible. Those are real conversations we should have. And I think we owe it to the American people to do it because we

talk a completely different language than people every day just trying to figure out how to build a home, how to pay for it, how to go for work and save money.

So that would just be my two cents. And if you all wanted to reply you can but I am out of time. And Mr. Chairman, thank you for allowing me to go.

Chairman GRAVES. If anybody wants to reply they can.

Mr. BAILY. I agree.

Chairman GRAVES. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman, for holding this hearing. I do not want to repeat what a lot of others have already said so let me come at it a little bit differently. But I am sure some of it has already been mentioned.

The president during his State of the Union address last week called for regulatory reform. I would argue if you look at the actions from this administration, however, any involvement that they have had relative to regulations has been anything but reform. It has been more and more regulations. And in fact, last year the Obama administration proposed over \$230 billion in new regulatory proposals which would have—one survey showed that it would have meant another 133 million paperwork hours on businesses. And with that amount of paperwork it would have taken close to 66,730 additional employees just to comply with the law. And I guess you could argue there are jobs there but I think clearly those are not the type of jobs that are going to make this a more efficient economy and make us more competitive around the world. So I think it is clear that these burdensome regulations really remain a thorn in the side of this economy and one of the reasons, only one that we have not seen in the recovery that I think we would have expected.

Dr. Jacobo, in your poll it indicated that government regulation remains the number one concern for small businesses and I know one of my colleagues on the other side had another poll that indicated something different. I know I have talked to an awful lot of small businesses in my community and I hear over and over and over again that government regulations is a big deal.

And another one of my colleagues on the other side mentioned a dysfunctional government and it clearly is that but I would argue that dysfunction is in the Senate and not in the House. When you look at regulatory reform and getting rid of burdensome regulations, the House has passed something like 30 bills which are sitting over in the other body and absolutely nothing is happening over there on these things. Or much of anything else. As of last week they had not passed a budget in a thousand days, which is almost three years despite the fact we are supposed to pass the budget every year and the House has. But once again not the Senate. But I think the dysfunction is over in the other body.

Dr. Jacobo, if the Senate and this president perhaps would push the Senate into actually passing some of those 27 to 30 bills—and I have got copies and could name what they all are but I do not want to bore you with all those things—if we actually passed some of this deregulation, getting the government the heck off the backs of these small businesses would that arguably have a significant effect on small business creation in this country?

Mr. JACOB. There are a couple of different factors obviously in that process. What I was trying to talk about was just a freeze because that to my mind would actually have a positive effect immediately. I think when you talk about the others it is a matter of what is being deregulated and all those details that you talk about. It certainly should have a positive impact. The question is how much depends on, you know, everybody has used deregulation differently or regulation differently.

Mr. CHABOT. Okay. And also one of my colleagues indicated the tax code being, you know, more than a Bible. And it is. It is actually eight Bibles stacked on top of each other is how complicated the tax code that both individuals and small businesses have to deal with in this country. What a waste of time that could be more profitably used to better run that business and may actually hire some folks.

The other thing that I heard over and over again from my small business folks was how tough it is to get access to capital. And one of the things that that is attributed to among other things is the Dodd-Frank legislation. What I have been told is, you know, the banks and folks that would lend the money are now—they have the regulators looking over their shoulders even more and it makes it tougher for them to lend out money. And so the businesses are not growing. Would anyone want to comment on that? Any of the panel members? Yes, sir.

Mr. FREDRICH. When I spoke, and I understand that maybe he is not subject to Dodd-Frank, but in general what it does is it makes it more of a process than a relationship in lending. And ratios and statistics do not pay loans back. People, individuals pay loans back. And it is a matter of honor that you do it. And he thought that regulation, the Dodd-Frank regulation was changing that dynamic. It was changing it more from a relationship business, which it is, to just a numbers business where, oh, you fell out of our statistical acceptability range so you have got to go. We are recalling your loan. We would have been long gone. Our company, long gone early on in our lifetime. I would have lost everything. I would have lost my house, lost everything. I personally guarantee the debt and I still do. So I think it moves that. And if we did not have a relationship I would not be here today talking about it. So.

Mr. CHABOT. Thank you.

Mr. BAILY. If you look back to the period of the boom I think we did not have effective regulation of the financial system and that contributed to the crisis that we got into and contributed heavily to the recession and the unemployment we have now. So I think it was necessary to revisit the regulation of the financial system. I think that Dodd-Frank could have and should have been a bipartisan bill. I think it came very close to being a bipartisan bill but there was a decision at the end of the day to say no. We are not going to go along with that. Maybe it would have been a better bill if it had been a bipartisan bill. So I think that is an example of a dysfunctional Congress that we did not have a bipartisan bill on that.

I do think that regulators now are looking over the shoulders of the banks and probably being a little bit too cautious. I think that would have happened with or without Dodd-Frank because, you

know, they were on the beach back in 2005 when a lot of these crazy loans were being made.

Mr. CHABOT. Mr. Ferrara.

Mr. FERRARA. Well, I think the answer to your question is yes. I think the Dodd-Frank is one of the components that is perpetuating the lack of any recovery. And I think a fundamental factor, too, in the credit market is incentives as well. You know, venture capitalists, for example, they are very sensitive to all these tax burdens, the tax rates, and they do look down the line. So it is hard for companies to get venture capital. If they think the capital gains rate is going to go up, historically that has proven to be a very powerful factor affecting venture capital.

And the point about the dysfunctional Congress, I want to note that one very good measure that the House passed is the Reams Act which would reestablish constitutional control over regulations and it is something that the other body really needs to move on.

Mr. CHABOT. Thank you very much. I yield back, Mr. Chairman. Thank you for holding this hearing.

Chairman GRAVES. Ms. Velázquez, do you have any more questions?

Ms. VELÁZQUEZ. Well, I do not know if my colleague was referring to impacting access to capital for small businesses as a result of Dodd-Frank. Were you referring the lack of access to credit to capital to small businesses as a result of Dodd-Frank?

Mr. CHABOT. Yes.

Ms. VELÁZQUEZ. And my argument before to that assertion is the fact that Dodd-Frank exempt community banks who have assets less than \$10 billion. And for the most part those financial institutions that are providing capital to small businesses are those community banks that are exempted from the Dodd-Frank.

And here we have a chart from the Thomson Reuters/PayNet Small Business Lending that shows clearly since Dodd-Frank was enacted credit has been going up. So, you know, there is this perception that is not based on the facts.

Thank you. And I yield back.

Chairman GRAVES. Well, I want to thank all of our witnesses for being here. Obviously, small businesses are plagued by a number of things—that lack of available credit that has been there. Obviously, regulation that is hanging out over them. The idea that they have got a tax increase that is coming very, very quickly if something is not done about that. I think that is having a huge effect. And when 7 out of every 10 jobs in this country are created by small businesses that is where our problem is with economic growth.

But I want to thank all of our witnesses for being here. I appreciate all of your testimony and this hearing is not quite adjourned.

I do ask unanimous consent that all members have five legislative business days to submit statements and supporting materials for the record. Without objection, so ordered.

With that the hearing is adjourned.

[Whereupon, at 2:54 p.m., the Committee hearing was adjourned.]

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 4<sup>th</sup> 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.

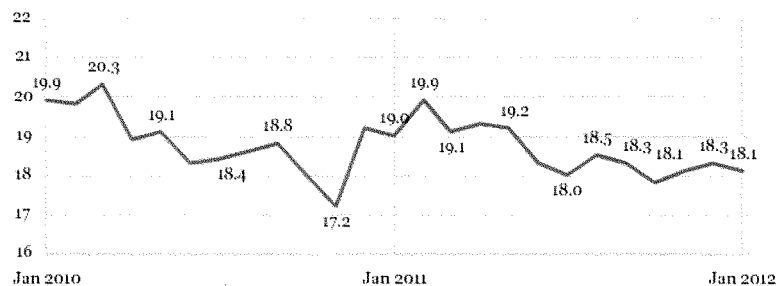
### Job Creation Is a Major Challenge

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<sup>^</sup>*

Not seasonally adjusted

<sup>^</sup> 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
	%	%	%
<b>KEEP JOBS IN U.S.</b>			
Keep manufacturing jobs here/Stop sending overseas	18	25	19
Higher taxes on imports/Buy American	4	6	7
<b>MORE LIMITED GOVERNMENT</b>			
Reduce government regulation/involvement	7	10	14
Lower taxes	14	12	10
Cut government spending/Reduce the deficit	3	5	3
<b>MORE ACTIVE GOVERNMENT</b>			
Create more infrastructure work	10	13	14
More stimulus money	4	2	3
<b>FOCUS ON SMALL BUSINESS</b>			
Do more to help small businesses	12	11	7
Make more credit available/Make it easier to get loans	2	2	2
<b>OTHER</b>			
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

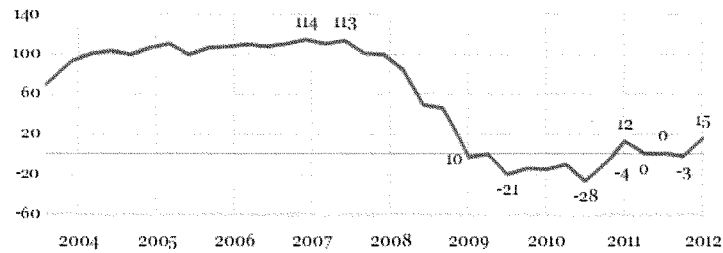
### Small-Business Owners Are the Most Optimistic They Have Been Since July 2008

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.

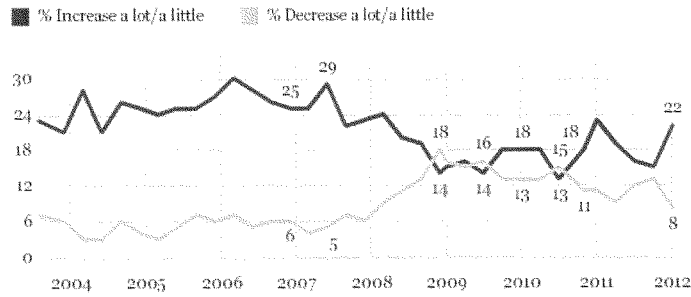
GALLUP

### 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:

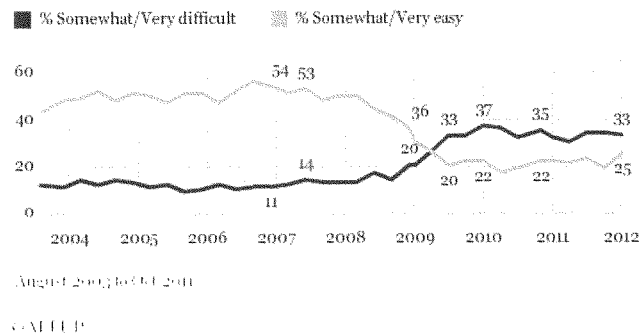
- Worried revenues or sales won't justify adding employees (71%);
- Worried about the current status of the U.S. economy (66%);
- Worried about cash flow or ability to make payroll (53%);
- Worried about the potential cost of healthcare (48%); and
- Worried about new government regulations (46%).

#### 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?



#### 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.

America's Ticking Bankruptcy Bomb

Testimony of

Peter Ferrara  
Senior Fellow for Entitlement and Budget Policy  
The Heartland Institute

Author of  
*America's Ticking Bankruptcy Bomb*  
(New York: HarperCollins, 2011)

Before the  
Small Business Committee  
United States House of Representatives

February 1, 2012

Even President Obama's own 2011 budget projected that by 2012 the national debt held by the public will have more than doubled in only 4 years, to \$11.9 trillion from 5.8 trillion in 2008. That alone means that in just one term of office, President Obama will have accumulated more national debt than all prior Presidents combined, from George Washington to George W. Bush. By 2021 the national debt held by the public will have more than tripled since 2008 to \$19 trillion, again under President Obama's own projections.

By the end of 2010, the national debt had already reached 62% of GDP, higher than at any time in our history except for World War II and shortly thereafter.<sup>1</sup> By 2023, CBO projects that under current policies the national debt held by the public will grow past 100% of GDP,<sup>2</sup> which means the federal government will owe more than our entire economy produces in a year. These projections assume that the 2009 stimulus spending is not continued, and consequently that federal spending outside of entitlements and debt interest is cut permanently by 16% as a percent of GDP.<sup>3</sup> The U.S. Government Accountability Office (GAO) presents an alternative fiscal simulation based on the best work of the government's own actuaries which projects that by 2020 the national debt held by the public will exceed even the World War II historical peak of 109% of GDP.<sup>4</sup>

But it gets worse. Even President Obama's budget projects that the federal government's Gross Federal Debt, which includes such items as the debt held in the Social Security trust funds (real debt that will have to be paid in the future), would be over \$26.3 trillion by 2020, or 110% of GDP. It will be even worse than that, because that estimate is based on phantom budget cuts and inflated growth estimates. The Bank for International Settlements (BIS) estimates that this Gross Debt will accelerate faster, hitting 200% of GDP by 2022, and 300% by 2030.<sup>5</sup> The federal debt ceiling, or debt limit, we often hear about in the news applies to this Gross Federal Debt, which was \$13.7 trillion as of September 30, 2010,<sup>6</sup> rising rapidly at the start of 2011 to the then federal debt limit of \$14.3 trillion.

Under current policies, CBO projects that even the smaller national debt held by the public, as opposed to the Gross Federal Debt, would rocket to 185% of GDP by 2035,<sup>7</sup> and to 200% by 2037,<sup>8</sup> twice as large as our entire economy. This national debt would explode further to unprecedented levels of 233% of GDP by 2040, and to 854% by

<sup>1</sup> Congressional Budget Office, *The Long Term Budget Outlook*, June, 2010, pp. 1, 13.

<sup>2</sup> *Id.*, p. 6.

<sup>3</sup> *Id.*, p. 12.

<sup>4</sup> U.S. Government Accountability Office, *The Federal Government's Long Term Fiscal Outlook: Fall 2010*, GAO-11-201SP, December, 2010. CBO projects the national debt will exceed the World War II historical peak by 2025.

<sup>5</sup> Nicholas Eberstadt and Hans Groth, "Time for Demographic Stress Tests," *The Wall Street Journal*, November 27-28, 2010, p. A17; Stephen G. Cecchetti, M.S. Mohanty and Fabrizio Zampolli, *The Future of Public Debt: Prospects and Implications*, BIS Working Papers No. 300, Bank for International Settlements, March 2010, p. 10.

<sup>6</sup> United States Department of the Treasury, *2010 Financial Report of the United States Government*, December 21, 2010, pp. vi.

<sup>7</sup> *Id.*, p. 1.

<sup>8</sup> *Id.*, pp. 6, 14.

2080.<sup>9</sup> As Erskine Bowles, Co-Chairman of President Obama's Deficit and Debt Commission and White House Chief of Staff under President Clinton, has said, "This debt is like a cancer that will destroy the country from within."

An international study for the National Bureau of Economic Research by Kenneth Rogoff of Harvard and Carmen Reinhart of Maryland, covering the experience of 44 countries over 200 years, found that economic growth slows substantially when national debt climbs over 90% of GDP.<sup>10</sup> In 2009 the national debt of Greece reached 115% of GDP. Within a year, the international markets refused to lend the Greek government any more money by buying its government bonds. That meant that Greece could not borrow the money to finance its budget deficit, sparking the Greek/Euro crisis. That resulted in a trillion dollar bailout from the European Union (EU), financed by EU taxpayers.

America is almost at this same disastrous level of debt as Greece, and on our current course we will soon be there. Indeed, on our current course we will rocket right through that level, and well beyond.

But the national debt is just the starting point for toting up everything the government owes, or may owe. The unfunded liabilities of Social Security and Medicare together run up to over \$100 trillion according to the government's own actuaries.<sup>11</sup> The so-called trust funds for Social Security and Medicare provide exactly zero help in financing those long term liabilities. The Social Security trust funds are reported to hold close to \$3 trillion in assets. But those assets are all special issue government bonds which just represent still more government debt, more accurately viewed as internal federal IOUs.

In reality, and as a matter of federal law, the Social Security trust funds are nothing more than a statement of the legal authority that Social Security has to draw from general revenues, meaning ultimately you the taxpayer, when the money is needed to pay benefits. That is why all the "assets" in the Social Security trust funds are actually included in the federal government's Gross Federal Debt, subject to the debt limit.

In addition, there are the further unfunded liabilities for federal military pensions, promised veterans benefits, and the retirement benefits for federal civil service workers. The FDIC is responsible for trillions in guarantees of government insured deposits, the FHA is liable for another trillion dollars of home mortgage insurance guarantees, and the National Flood Insurance Program is responsible for over a trillion in outstanding coverage, with nothing of significance to back it up.

Then there are all the guarantees piled up by the TARP and other bailouts over the past few years. As of September 30, 2010, the Treasury still held close to \$200 billion in

<sup>9</sup> Committee for a Responsible Federal Budget, CBO's Long Term Budget Outlook, July 1, 2010, p. 1.

<sup>10</sup> Carmen M. Reinhart and Kenneth S. Rogoff, Growth in a Time of Debt, National Bureau of Economic Research, Working Paper 15639, January, 2010.

<sup>11</sup>

outstanding direct loans and stock investments due to the TARP bailouts.<sup>12</sup> Altogether the Treasury held nearly \$1 trillion in net loans receivable and stock equity interests, including 33% of the stock of General Motors,<sup>13</sup> 10% of the stock in Chrysler,<sup>14</sup> \$42 billion (80%-90%) of AIG stock,<sup>15</sup> and over \$100 billion in the stock of Fannie Mae and Freddie Mac.<sup>16</sup> Fannie Mae and Freddie Mac alone hold \$4.4 trillion in mortgage backed securities (MBS's), with another \$1.4 trillion in debt not counted in the national debt.<sup>17</sup> The Federal Reserve, the FHA and the U.S. Treasury hold trillions more in MBS's and federal guarantees of those toxic securities that were at the root of the financial crisis.<sup>18</sup> The federal bailout of Fannie Mae and Freddie Mac has already cost \$150 billion, projected to rise ultimately to half a trillion.<sup>19</sup>

Total federal loan guarantees have now climbed close to \$2 trillion. The face value of federal loans outstanding in 2010, including education, agriculture, housing and other loans, reached over \$700 billion.<sup>20</sup> With long term near double digit unemployment, those education loans are now particularly risky. The federal government is also responsible for an estimated \$320 billion in environmental cleanup costs for federal properties required under current law.<sup>21</sup> All these liabilities are in addition to the national debt discussed above.

Thoroughly wrong headed Obamacare just adds further trillions to all these liabilities, as discussed further below. The additional unfunded liabilities of state and local governments are also on top of the national debt discussed above. That includes over \$3 trillion in municipal bond and state level debt, close to \$4 trillion in unfunded state and local pension liabilities, and over one trillion more in completely unfunded retirement health benefits promised to state and local employees.

Most people do not know that since soon after World War II federal spending as a percent of GDP has been fairly stable at around 20%, until recently. That covers a period approaching two-thirds of a century. All of the great debates, the political crusades left and right, the liberal War on Poverty, the steady rise of the entitlements, the Reagan revolution, the Clinton sellout of the Left, the Bush sellout of the Right, amounted to

<sup>12</sup> United States Department of the Treasury, 2010 Financial Report of the United States Government, December 21, 2010, pp. vii, 6, 69, 71, 74, 84; Statement of the Acting Comptroller General of the United States, U.S. Government Accountability Office (GAO), December 21, 2010, pp. 4.

<sup>13</sup> Id., p. 6.

<sup>14</sup> Id., p. 71.

<sup>15</sup> Id., p. 69, 74.

<sup>16</sup> Statement of the Acting Comptroller General of the United States, U.S. Government Accountability Office (GAO), December 21, 2010, pp. 4; United States Department of the Treasury, 2010 Financial Report of the United States Government, Notes to the Financial Statements, December 21, 2010, p. 84.

<sup>17</sup> Congressional Budget Office, Federal Debt and Interest Costs, December, 2010, p. 2.

<sup>18</sup> Statement of the Acting Comptroller General of the United States, U.S. Government Accountability Office (GAO), December 21, 2010, p. 5. United States Department of the Treasury, 2010 Financial Report of the United States Government, December 21, 2010, p. 82.

<sup>19</sup> United States Department of the Treasury, 2010 Financial Report of the United States Government, December 21, 2010, pp. vii, 14-15, 56, 83.

<sup>20</sup> Id., p. 64.

<sup>21</sup> Id., p. 97.

holding federal spending in equipoise during this entire period, growing in the end no faster than our enormously productive economy during this time.

That crashing sound you hear is the collapse of this long term grand compromise, which until recently has allowed our economy to continue to soar ahead with world leading prosperity. Official U.S. government projections have shown for some time now that over the next 30 to 40 years federal spending as a percent of GDP will double to 40% or more. Financing that would ultimately require at least doubling every federal tax. Add in continued state and local spending growing towards 15 percent of GDP, and government in America will consume more than half of the economy. Much more than half in the end, because under that burden GDP growth will collapse, leaving the government share an even higher percentage of a shrunken GDP.

This would fundamentally transform America into a static, low growth, socialist European state. America's traditional world leading prosperity and opportunity, the American Dream, would be gone.

President Obama has only accelerated these developments, with federal spending on our current course now targeted to hit 26% of GDP by 2021. The driving factors in the long term fiscal demise of traditional American prosperity are the nation's entitlement programs – Social Security, Medicare, Medicaid and the dozens of other federal, means-tested welfare programs, and now Obamacare.

As discussed in this testimony, these multiplying, entitlement, dead weight anchors not only threaten America's future solvency and prosperity, they counterproductively fail the poor, low income and senior populations they are supposed to help, and directly contribute to America's economic decline today. The joint federal/state welfare empire crushes work and the family unit among those in the bottom 20% in incomes. Obamacare, Medicaid, and now Medicare mangled by Obamacare promise the destruction of the world leading top quality health care that has long been fundamental to America's high standard of living. Obamacare in addition imposes another trillion dollars in economically counterproductive taxes, plus the job killing employer mandate, effectively another burdensome tax. Social Security promises today's working people a miserable return on their lifetime of burdensome tax payments, and deprives the economy of mighty rivers of savings and investment that would rocket ahead America's world leading prosperity into the 21<sup>st</sup> century.

But there is good news, if we would just think anew. As I show in detail in my recent book, *America's Ticking Bankruptcy Bomb*<sup>22</sup>, by modernizing our old fashioned, tax and redistribution entitlement programs to rely on 21<sup>st</sup> century capital, labor and insurance markets instead, we can achieve all of the social goals of these entitlement programs far more effectively, serving seniors and the poor far better, at just a fraction of the current cost of those programs. Such reforms would involve powerful market incentives driving the programs to contribute further to booming economic growth and prosperity, rather than detract from it.

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<sup>22</sup> Peter Ferrara, *America's Ticking Bankruptcy Bomb* (New York: HarperCollins, 2011)

Ultimately, these reforms altogether would reduce federal spending by half or more of what it would be otherwise, solving the long term fiscal problem. Yet, because these reforms involve fundamental structural changes that actually serve the poor and seniors far better, rather than simple-minded benefit cuts (the political equivalent of the Charge of the Light Brigade), they are politically feasible. Modernizing the programs to the remarkable benefit of the populations they serve, which the book shows is possible by harnessing markets and incentives to achieve the social goals of the programs far more effectively, is the political key to unlock the door to the necessary entitlement reform.

### The Welfare Empire

The term “welfare state” is inadequate to describe America’s means tested welfare complex targeted to the poor. What we have is a welfare empire involving 185 joint federal/state means tested welfare programs, including Medicaid, Food Stamps, 27 low income housing programs, 30 employment and training programs, 34 social services programs, another dozen food and nutrition programs, another 22 low income health programs, and 24 low income child care programs, among others.

Federal and state governments spend close to a trillion dollars a year just on these means tested welfare programs<sup>23</sup>, not counting Social and Medicare. That is roughly \$17,000 per person in poverty, over \$50,000 for a poor family of three. The Census Bureau estimates that our current welfare spending totals four times what would be necessary just to give all of the poor the cash to bring them up to the poverty line.<sup>24</sup> Charles Murray wrote a whole book, *In These Hands*, documenting that we spend far more than enough to completely eliminate all poverty in America.<sup>25</sup> This dramatic overspending leaves wide scope for reforms that would be far more effective in reducing poverty, while still saving taxpayers a fortune.

The War on Poverty famously began in 1965. From 1965 to 2008, the total spent only on means tested welfare for the poor in 2008 dollars has been nearly \$16 trillion.<sup>26</sup> Rector et al. report that has been more than twice all spending on all military conflicts from the American Revolution to today.<sup>27</sup>

What have we gotten for all of that spending? Poverty fell sharply after the Depression, before the War on Poverty. The poverty rate fell from 32% in 1950 to 22.4% in 1959 to 12.1% in 1969, soon after the War on Poverty programs became effective. Progress against poverty as measured by the poverty rate then abruptly stopped. In 2009, the U.S. poverty rate stood at 14.3%, about where it was right after the War on Poverty

<sup>23</sup> Robert Rector, Katherine Bradley, and Rachel Sheffield, *Obama to Spend \$10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor* (Washington, DC: The Heritage Foundation, 2009)

<sup>24</sup> *Ibid.*, pp. 15-16.

<sup>25</sup> Charles Murray, *In Our Hands, A Plan to Replace the Welfare State* (Washington, DC: American Enterprise Institute, 2006)

<sup>26</sup> Rector et al., p. 12.

<sup>27</sup> *Id.*

began, despite the expenditure of \$16 trillion. In other words, we fought the War on Poverty, and poverty won.

One major reason that poverty stopped declining after the War on Poverty started is that the poor and lower income population stopped working. In 1960, nearly two-thirds of households in the lowest income one-fifth of the population were headed by persons who worked.<sup>28</sup> But by 1991, this work effort had declined by about 50%, with only one-third of household heads in the bottom 20% in income working, and only 11% working full-time, year round.<sup>29</sup>

This was not a matter of the poor not being able to find work. While the economy was chaotic during the 1970s, during the 1980s and 1990s America enjoyed an historic economic boom creating millions of jobs. The proof is in the pudding, or in how people actually voted with their feet. Millions of illegal aliens surged across the border to gain those jobs and participate in America's economic golden age, with the unemployment rate collapsing into insignificance by the end of the 1990s.

With the government offering such generous and wide-ranging benefits, from housing to medical care to food stamps to outright cash, and many others, to those with low incomes or who are not working at all, naturally many choose to reduce or eliminate their work effort and take the free benefits. Incentivewise, it is as if the government is generously paying people not to work and to have low incomes.

But along with this collapse of work, the War on Poverty was also associated with the breakup of lower income families, and soaring illegitimacy. Prior to the War on Poverty, black families remained intact, and the overwhelming majority of black babies were born to 2 parent families. But coinciding with the War on Poverty, the black illegitimacy rate soared from 28% in 1965, to 49% in 1975, to 65% in 1990, to about 70% in 1995, where it remains today.<sup>30</sup> This effect has not been limited to blacks. Among whites, illegitimacy soared from 4% in 1965, to 11% in 1980, 21% in 1990, and 25% in 1995, where it also remains today. Among white high school dropouts, the illegitimacy rate is 48%. Among Americans overall, the illegitimacy rate has soared from 7% when the War on Poverty began to 39% today.

Such illegitimacy is the second key cause of poverty, in addition to nonwork. The poverty rate for female headed households with children is 44.5%, compared to 7.8% for married couples with children. The poverty rate for married black Americans is only 11.4%, while the rate for black female headed households is 53.9%. Moreover, it is primarily these single parent families that remain poor and dependent on welfare for the long term. Indeed, single parent families perpetuate poverty into the next generation.

<sup>28</sup> U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 80, Income in 1970 of Families and Persons in the United States, p. 26.

<sup>29</sup> U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 180, Money Income of Households, Families, and Persons in the United States: 1991, p. 7.

<sup>30</sup> The illegitimacy rate is officially reported by the National Center for Health Statistics; See also, Jason L. Riley, "The State Against Blacks: The Weekend Interview with Walter Williams," *The Wall Street Journal*, January 23-23, 2001, p. A13.

Children raised in single parent families are 7 times more likely to become welfare recipients as adults. The negative effects on children from single parent families, and crime resulting from illegitimacy, also perpetuate poverty long term. As Robert Rector of the Heritage Foundation explains, “If poor women who give birth outside of marriage were married to the fathers of their children, two-thirds would immediately be lifted out of poverty. Roughly 80 percent of all long-term poverty occurs in single-parent homes.”<sup>31</sup>

Family break up and illegitimacy are again the natural result of the incentives created by our massive, overgrown welfare empire. Most welfare benefits are restricted to families with children. If you are a non-elderly adult in America without children, you are pretty much expected to support yourself. That is a sound principle. But it means that having a baby is the gateway to a generous package of government benefits.

Moreover, if the mother is married to a man who earns a significant income, then the benefits are lost. Indeed, if the mother is married to a man who is not working, but the government requires him to take available work before benefits are paid, then the benefits will be lost in any event, whether he refuses to work, or if he works and earns an income that eliminates benefits.

Once again, it is as if the government is paying women to have children out of wedlock. As Rector aptly puts it, “Welfare ...converts the low-income working husband from a necessary breadwinner into a net financial handicap. It transformed marriage from a legal institution designed to protect and nurture children into an institution that financially penalizes nearly all low-income parents who enter into it.”<sup>32</sup>

#### Winning the War on Poverty

But an historic turning point in welfare policy was achieved with the enormously successful 1996 reforms of the old Aid to Families with Dependent Children (AFDC) program. Those reforms, spearheaded by then Speaker of the House Newt Gingrich, implemented the ultimate welfare policies favored by President Reagan and his long time welfare guru Robert Carleson, as explained in Carleson’s recent posthumously published book *Government Is The Problem: Memoirs of Ronald Reagan’s Welfare Reformer*.<sup>33</sup> (I worked directly for Carleson in the Reagan White House).

The reform returned the share of federal spending on the AFDC program to each state in the form of a “block grant” to be used in a new welfare program redesigned by the state based on mandatory work for the able bodied. Federal funding for AFDC previously was based on a matching formula, with the federal government giving more to each state the more it spent on the program, effectively paying the states to spend more. The key to the 1996 reforms was that the new block grants to each state were finite, not

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<sup>31</sup> Rector, et al., p. 25.

<sup>32</sup> Rector, supra, p. 201.

<sup>33</sup> Susan A. Carleson and Hans A. Zeiger, *Government Is the Problem: Memoirs of Ronald Reagan’s Welfare Reformer* (Alexandria, VA: American Civil Rights Union, 2009)

matching, so the federal funding did not vary with the amount the state spent. If a state's new program cost more, the state had to pay the extra costs itself. If the program cost less, the state could keep the savings.

To give the states broad flexibility in designing the new replacement program, the entitlement status of AFDC was repealed, as states could not be free to redesign their programs if their citizens were entitled to coverage and benefits as specified in federal standards. The reformed program was renamed Temporary Assistance to Needy Families (TANF).

The reform was opposed bitterly by the liberal welfare establishment. Their view was well expressed by Senator Daniel Patrick Moynihan, the Urban Institute, and others who predicted that the reforms would produce a "race to the bottom" among the states, and that within a year a million children would be subject to starvation.

But quite to the contrary, the reform was shockingly successful, exceeding even the predictions of its most ardent supporters. The old AFDC rolls were reduced by two-thirds nationwide, even more in states that pushed work most aggressively: Wyoming (97%), Idaho (90%), Florida (89%), Louisiana (89%), Illinois (89%), Georgia (89%), North Carolina (87%), Oklahoma (85%), Wisconsin (84%), Texas (84%), Mississippi (84%). By 2006, the percent of the population receiving TANF cash welfare was down to 0.1% in Wyoming, 0.2% in Idaho, 0.5% in Florida, 0.6% in Georgia, Louisiana, North Carolina, and Oklahoma, and 0.7% in Arkansas, Colorado, Illinois, Nevada, Texas and Wisconsin. Nationwide, the percentage of American children on AFDC/TANF was reduced from 14.1% in 1994 to 4.7% in 2006.

As a result, in real dollars total federal and state spending on TANF by 2006 was down 31% from AFDC spending in 1995, and down by more than half of what it would have been under prior trends. At the same time, because of the resulting increased work by former welfare dependents, the incomes of the families formerly on the program rose by 25%, and poverty among those families plummeted. Haskins reports, "[B]y 2000 the poverty rate of black children was the lowest it had ever been."

This illustrates the entitlement reform theme of the book that through fundamental structural reforms we can achieve the social goals of those programs far more effectively, ultimately serving seniors and the poor far better, at just a fraction of the costs of the current old-fashioned programs.

There was only one problem with the 1996 reforms – they only reformed one program. The same reforms can and should be extended to all of the remaining 184 federal means tested welfare programs. This would amount to sending welfare back to the states, achieving the complete welfare reform dream of Reagan and Carleson in restoring the original federalism and state control over welfare. It also follows the spirit of the Tea Party movement in restoring power to the states and gaining control over government spending, deficits and debt.

I discuss in the book how the states should use their newly restored powers to adopt an entirely new welfare system for the able bodied providing benefits only in return for work first. Those who were disabled or retired and so couldn't be expected to work would be assisted through separate programs. But otherwise the nation's local welfare offices would be turned into work offices. Those who reported for work early enough in the day would be assured a work assignment for that day, preferably in the private sector as temp agencies arrange for their customers, but if necessary doing some work task serving the community in some way, city, county or state.

They would be paid in cash at the minimum wage at the end of the day. If they needed more money, they could come back tomorrow. All forms of assistance would be provided to the able bodied only in conjunction with this work. Child care would be provided on site, those who reported for work consistently enough could be given vouchers to help pay for health insurance, necessary transportation assistance could be provided to get to the work office, etc.

The book shows that the minimum wage, plus the Earned Income Tax Credit (EITC), plus the Child Tax Credit are enough by themselves to bring every family out of poverty with full time employment at such work. But much of this cost would be borne by private employers paying the wages in return for work.

Indeed, the incentives of this system would push most of the costs to the private wage paying employers, instead of the taxpayers, because this system eliminates the work disincentives of welfare. Rather, the incentive is to take whatever private sector job is available, since the able bodied will have to work to support themselves in any event, and in the private sector the worker will gain skills, raises, promotions, and new opportunities over time. Those who do show up for the work assignments anyway would be assigned to private employers as well to the extent possible, and those connections would likely grow into long term employment. In any event, no one is going to keep showing up for these day jobs for years, like some stay on welfare for years.

Consequently, instead of taxpayers paying the bottom 20% in income not to work, as today, employers would be paying them to work. As a result, the bottom 20% would be contributing to the economy, rather than detracting from it by staying home idle and living off the work of others.

The welfare incentives for family breakup and illegitimacy are also eliminated entirely. No free benefits are handed out any longer for bearing a child out of wedlock. If the mother has a child without a husband, then the mother must go to work to support the child. Moreover, there is nothing to be gained under this system by avoiding marriage or by couples splitting up. No benefits are provided to the mother for being unmarried. A government welfare check does not become a substitute for a working husband. If the father has to work to support himself anyway, and will be charged for child support, then he has no economic incentive to stay away from the family either. So this system does not discourage marriage or encourage family break up.

To the contrary, since living together will reduce living expenses that the couple will have to work to pay for in any event, the incentives are for family unification rather than family breakup. Couples staying together can also help each other by sharing the necessary work if they desire. Indeed, a single mother can avoid work altogether by marrying a working husband. So the system provides reinforcing economic incentives for marriage search.

With all the programs of the current welfare empire estimated together to cost \$10 trillion over the next 10 years, the resulting savings to the taxpayers would be several trillion just in those first 10 years alone. Indeed, while substantial costs would remain for a program like Medicaid, the above incentives I argue would likely drive down costs for most of the remaining programs by more than half. But at the same time, poverty in America would actually be effectively eliminated, with all able bodied people assured of work earning sufficient income to climb above the poverty line.

#### Obamacare versus Patient Power

With the overwhelming burden of already badly overpromised entitlement programs threatening long term fiscal chaos and the end of America's traditional world leading prosperity, President Obama decided the top priority was to make the problem worse with Obamacare, which adopts or wildly expands three entitlement programs. While President Obama insisted Obamacare would not add to the federal deficit, the book explains why it will add \$4 to \$6 trillion in additional deficits and debt in the first 20 years of implementation alone. But that is not the biggest problem. Obamacare in any event needlessly adds trillions in additional spending and taxes to an already bursting federal ledger, and promises to decimate the world leading quality health care that has long been a central component of the high standard of living of the American people.

Obamacare was advanced to address two central problems, rapidly rising health costs and the uninsured. National health care costs have been growing faster than the economy for close to 100 years. But that cost growth accelerated over the past 50 years, soaring from 5 percent of GDP in 1960 to 10 percent in 1985 to 17 percent in 2009. That is the highest proportion of output devoted to health care of any country in the world, by far. Second is France at 11.2% of GDP, followed by Switzerland at 10.7%. Germany spends 10.4%, the United Kingdom only 8.7%. The OECD average is 9%.

Since we still have the biggest economy in the world by far, that means we spend far more on health care than any other country in the world. U.S. health costs totaled \$2.5 trillion in 2009, larger than the entire economies of every other country in the world except China, Japan, Germany, and France. Per person, we spent \$7,538 on health care in 2008, again higher than any other country by far. That was 50% more than the second most, Norway, at \$5,003, with Switzerland in third at \$4,627. Germany only spent half as much, at \$3,737 per person, and the United Kingdom less than half at \$3,129. The OECD average was less than half as well, at \$3,060.

These trends are expected to continue. CBO projects that on our current course by 2040 health care costs would consume close to one-third of GDP.

The root of these rapidly rising health costs is what economists have called the Third Party Payment problem. The great majority of health costs in America are not paid by the patients themselves. There is almost always some third party paying the bills, either an insurance company, an HMO, or the government through programs such as Medicare and Medicaid. Indeed, in 2008, 84% of health expenses in America were paid for by private health insurance, Medicare, Medicaid, or other public spending.

Try this thought experiment. Consider sending your teenage daughter to the mall on a Saturday with a debit card for a bank account with \$1,000 in it. Tell her that what she doesn't spend today she can keep for the future, with interest, to spend later. Then consider sending her to the mall with Uncle Sam's credit card. Tell her you effectively have already paid for whatever she might charge through your income taxes. How do you think the magnitude of what she purchases would differ?

The fundamental problem, of course, is that with a third party paying the bills, the consumer, or the patient, has no incentive to control costs. In formal terms, the consumer has an incentive to spend until the marginal benefit of additional spending, or additional health care is zero, so different from an efficient market, where consumers spend until the marginal benefit is equal to the marginal cost. In more colloquial terms, this means consumers have the incentive to spend on health care until it hurts.

To make matters worse, consumers lack expertise in health care, and make their health care purchases on the advice of their chosen doctors and specialists, who not only also have no incentive to control costs, but, rather, have a direct financial interest in spending more. The consumer doesn't even have an incentive to shop for the lowest cost care for what he does decide to consume.

This means, in turn, that health care providers have no incentive to compete to reduce costs, since consumers and patients are not making their health care decisions based on costs. They are making their decisions based primarily on quality, and secondarily convenience. That is why the American health care system produces far and away the highest quality health care in the world, resulting from highly effective capitalist competition, and traditional Yankee ingenuity in producing the latest and best innovations.

This also explains why new medical technology increases costs, while in every other field new technology drives down costs. Since in American health care there is only competition to maximize quality, regardless of costs, developers and innovators of new medical technology are focused primarily on increasing quality regardless of cost.

The only solution is to unite the decision over what health care to purchase and consume with the economic responsibility to pay the costs, so costs can be weighed against benefits in health care consumption. There are two alternative ways to do that.

Either the third party payer is given the power to decide what health care the consumer or patient is allowed to consume, in which case the third party payer weighs the costs of the patient's health care against the benefits to the patient from that health care. Or the patients are given market incentives to consider the full costs of the health care they choose to consume, in which case the patient weighs the personal benefits of his or her health care against the costs of that care.

Most countries have chosen the former alternative through socialized medicine. With the government taking primary responsibility for paying health expenses through its taxpayer financed health programs, the government takes primary responsibility for deciding what health care its citizens are allowed to consume and when. The government then decides to what extent each individual's health care is worth the costs.

This introduces its own perverse incentives, particularly to sacrifice to broader political calculations the interests of the sickest and most costly, always a small minority not nearly fully aware of the scope of possible medical alternatives. With the government and politics ultimately deciding who gets paid how much for what health care, incentives for investment to develop new medical technology, innovation, and breakthroughs are decimated. Finally, this system raises troubling moral issues, with the government effectively deciding in place of citizens whether their health care is worth the costs, and consequently who should live and who should die.

Though initially subtle and opaque, Obamacare creates the framework to take America down this road. That can be seen for starters in the \$15 trillion in future cuts to Medicare payments to doctors and hospitals, and turning over the program to the democratically unaccountable Independent Payment Advisory Board.

The alternative has been dubbed Patient Power, after the pathbreaking book of that name by free market health guru John Goodman published by the Cato Institute in 1992. The classic example of such policy is Health Savings Accounts (HSAs).

The concept behind HSAs is to start with an insurance policy with a high annual deductible, in the range of \$2,000 to \$6,000 in today's products (the higher the better). Such high deductibles, of course, reduce the cost of the insurance substantially, with the savings then kept in the savings account to pay expenses below the deductible. Generally, after one healthy year with little or no medical expenses, the patient by the second year would have more than enough in the account to cover all expenses below the deductible. (And even if the patient has an unhealthy first year, the net out of pocket costs after using up the first year savings in the HSA is not much more than standard deductibles and copayments in traditional health insurance). Unspent HSA funds can be used for health expenses in later years, or for anything in retirement.

This transforms the incentives of third party payment. For all but catastrophic health expenses, the patient is essentially using his own money for health care. Whatever he doesn't spend he can keep. So the patient will try to avoid unnecessary care, and look for less expensive care and alternatives for what he does need.

In turn, since patients would now be concerned about costs, doctors, hospitals and other providers would now compete to control costs, as well as maximize quality, as in all normal markets. This competition would become more intense and effective the more widespread HSAs and similar incentives become. These incentives would flow all the way through to the developers of new technologies. Since both patients and health providers are now concerned with costs, technology innovators would now have incentives to develop technologies that reduce costs, as well as improve quality.

HSAs can be expanded throughout the health care system. Workers can be allowed the freedom to choose them in place of employer provided coverage, the poor can be allowed to choose them for their Medicaid coverage, seniors can be allowed to choose them for Medicare.

Similar policies would involve providing the poor through Medicaid with designated sums for the purchase of insurance coverage in competitive markets, resulting in incentives for cost saving choices among health insurance alternatives. That can be done with employer provided health insurance as well. The same can also be done for Medicare, as House Budget Committee Chairman Paul Ryan has proposed. A similar approach for the drug coverage of Medicare Part D proved quite successful in controlling costs. By contrast, President Obama's approach to Medicare emphasizes again the other alternative of expanded government control over the health care provided to seniors under Medicare through his Medicare cuts and Independent Payment Advisory Board, ominously exempted from democratic control. This is just one reason why Ryan's Medicare reforms are actually better for seniors than Obama's approach to Medicare.

Additional reforms would provide for complete Patient Power. The interstate sale of health insurance would maximize consumer choice, and competition, which would further reduce costs. Regulations that unnecessarily increase costs should be repealed. These include the thousands of state special interest benefit mandates, guaranteed issue, and community rating, as well as regulations that unnecessarily prevent new health providers from entering markets and increasing competition, such as certificate of need requirements mandating a showing of need for the services.

#### A Health Care Safety Net

In *America's Ticking Bankruptcy Bomb*, I discuss how Patient Power can be extended to provide a complete health care safety net covering everybody to assure that no one will suffer lack of essential health care, for just a small fraction of the cost of Obamacare. Moreover, this is accomplished with no individual mandate and no employer mandate. Obamacare, by contrast, for all of its trillions in future taxes and spending, and both its individual and employer mandate, still does not cover everyone.

Such reform would begin with Medicaid, which already spends over \$400 billion a year providing substandard health care coverage for 50 million poor Americans. Congress should transform Medicaid to provide assistance to purchase private health

insurance for all those who otherwise could not afford coverage, ideally with health insurance vouchers. This one step would enormously benefit the poor already on Medicaid. The program today pays doctors and hospitals only 60% of costs for their health care services for the poor. As a result, close to half of all doctors and hospitals won't take Medicaid patients. This is already a form of rationing, as Medicaid patients find obtaining health care increasingly difficult, and studies show they suffer worse health outcomes as a result. Health insurance vouchers would free the poor from this Medicaid ghetto, enabling them to obtain the same health care as the middle class, because they would be able to buy the same health insurance in the market.

Ideally this would be done by block granting Medicaid back to the states, as with the 1996 AFDC reforms discussed above. With finite block grants for Medicaid, states that innovate to reduce costs can keep the savings. States that operate programs with continued runaway costs would pay those additional costs themselves. The voters of each state can then decide how much assistance for the purchase of health insurance to provide each family at different income levels to assure that the poor would be able to obtain essential health care. This would rightly vary with the different income and cost levels of each state.

This would not cost much because only about 12 million Americans arguably cannot afford health insurance without some public assistance. Out of the 47 million uninsured we keep hearing about, 9.7 million are already eligible for current government programs like Medicaid or SCHIP but haven't signed up. Another 6 million are eligible for employer sponsored insurance but have not signed up for that either. Another 9 million are in families earning more than \$75,000 per year. Another 10.2 million are immigrants, legal or illegal, and not U.S. citizens. Just give the assistance necessary, counting what they can reasonably pay based on their income, to the 12 million Americans that need it to buy private health insurance.

A second step necessary to ensure a complete safety net is to provide federal funding to help each state set up a High Risk pool. Those uninsured who become too sick to purchase health insurance in the market, perhaps because they have contracted cancer or heart disease, for example, would be assured of guaranteed coverage through the risk pool. They would be charged a premium for this coverage based on their ability to pay, ensuring that they will not be asked to pay more than they could afford. Federal and state funding would cover remaining costs. Such risk pools already exist in over 30 states, and for the most part they work well at relatively little cost to the taxpayers because few people actually become truly uninsurable.

The law already provides that insurers cannot cut off already existing policyholders, or impose discriminatory rate increases, because they become sick *while* covered. That would be like allowing fire insurers to cut off coverage for houses once they catch on fire. If this law needs to be modernized, it should be.

With these reforms, those who have insurance can keep it, those who can't afford it are given the necessary help to buy it, and those who nevertheless remain uninsured

and then become too sick to buy it have a back up safety net in the risk pools. Everyone is assured of being able to get essential health care when they need it, with no individual or employer mandate.

The Medicaid block grants would likely cost less actually than Medicaid today, but serve the poor far better, and the High Risk pools involve only marginal additional costs. Obamacare, by contrast, was estimated by CBO to cost a trillion dollars a year, more likely \$2 to \$3 trillion as explained in the book. But with Patient Power, the patients themselves would enjoy maximized personal control over their own health care, with the current world leading quality of American health care maintained. So again, the people are served better, at just a fraction of the cost.

Moreover, once the decision over what health care to buy is united with market incentives to control costs in the patients themselves, then the people themselves can decide what percentage of GDP should be devoted to health care, through their collective decisions in the marketplace. The health cost problem would be addressed in the competitive marketplace, consistent with the preferences of the people themselves. The health care industry would then be a contributor to jobs and growth of the economy just like any other, rather than considered a net drain on the economy. Restraint of health costs consistent with consumer preferences would further contribute to economic growth.

#### Social Security Personal Account Prosperity

The Baby Boom is beginning now to retire on Medicare in earnest, with retirement on Social Security starting in a year or so. For decades now, the federal government's own official reports have been showing that Social Security would not be able to pay all promised benefits to the baby boom without dramatic, unsustainable tax increases.

Last year, for the first time since President Reagan saved the program in 1983, Social Security began running a cash deficit. Under what the government's actuaries call intermediate assumptions, those deficits will continue until the Social Security trust funds run out of funds to pay promised benefits by 2037. After that, paying all promised Social Security and Medicare benefits will require eventually almost doubling the current total payroll tax of 15.3% to nearly 30%.

Under what the government's actuaries call pessimistic assumptions, the Social Security trust funds will run out of funds to pay promised benefits by 2029. After that, paying all promised benefits to today's young workers would eventually require raising the total payroll tax rate to 44%, three times current levels, and ultimately more.

Social Security operates as a pure tax and redistribution system, with no real savings and investment anywhere. Even when it was running annual surpluses, close to 90% of the money coming in was paid out within the year to pay current benefits. Even the remaining annual surpluses were not saved and invested. They were lent to the federal government and spent on other government programs, from foreign aid to bridges

to nowhere, with the Social Security trust funds receiving only internal federal IOUs promising to pay the money back when it is needed to pay benefits. Those federal IOUs are rightly accounted for in federal finances not as assets but as part of the Gross Federal Debt, subject to the national debt limit. That is because they do not represent savings and investment but actually additional liabilities of federal taxpayers.

Such a pay-as-you-go tax and redistribution system does not earn the investment returns that a fully funded savings and investment system would. Consequently, over the long run the system can only pay low, inadequate, below market returns and benefits. That is why studies show that for most young workers today, even if Social Security does somehow pay all its promised benefits, those benefits would represent a real rate of return of around 1% to 1.5% or less. For many, the real effective return would be zero or even negative. A negative rate of return is like putting your money in the bank, but instead of earning interest on it, you have to pay the bank for keeping your deposit there. That is effectively what Social Security is for many people today.

Moreover, on our present course, that is what Social Security will be for everyone in the future. Whether the long term deficit is closed ultimately by raising taxes or cutting benefits, that will mean the effective rate of return from the program will be lower, ultimately falling into the negative range for everyone.

There is a better way, proven to work in the real world. Workers could be allowed to save and invest what they and their employers would otherwise pay into Social Security in personal savings, investment and insurance accounts. Studies show that at standard, long term, market investment returns, for an average income, two earner couple, over a career the accounts would accumulate to close to a million dollars or more. Even lower income workers could regularly accumulate half a million over their careers.

Those accumulated funds would pay all workers of all income levels much higher benefits than Social Security even promises let alone what it could pay, two to three times as much, and possibly even more. Retirees would each be free to choose to leave any portion of these funds to their children at death.

Another virtue of these personal accounts is that with workers financing their own benefits through their own savings and investment, they can be free to each individually choose their own retirement age. Moreover, they would have market incentives to choose on their own to delay their own retirement ages as long as possible, because the longer they wait the more they would accumulate in their accounts, and the higher benefits those accounts could pay.

As a result, millions of workers with less physically taxing jobs would choose on their own to delay their retirement well into their 70s, a result that could never be imposed politically. But other workers whose jobs required heavy physical labor or who for other physical reasons could not work past their early 60s could retire then. With planning, they or their employers could make additional contributions to the accounts over the years to finance more benefits in that earlier retirement. This is a far superior

solution to the question of the retirement age than politics imposing one, uniform, unworkable retirement age on all.

#### Proven to Work

In 2005, Congressman Paul Ryan (R-WI) and Senator John Sununu (R-NH) introduced comprehensive legislation providing for such a personal accounts plan, officially scored by the Chief Actuary of Social Security. Workers were empowered with the freedom to choose to save and invest in the accounts just half the Social Security payroll tax, roughly the employee share of the tax. But the Chief Actuary concluded that the accounts would still be so clearly a better deal that *all* workers would choose the accounts.

Over the long term, the accounts result in breathtaking reductions in government spending, because the payment of Social Security benefits is shifted out of the federal budget altogether, financed instead through the accounts in the private sector. This would result in the largest, most dramatic reduction in government spending in world history.

Because of this, the personal accounts alone under Ryan-Sununu eventually closed the long term Social Security financing gap entirely, without any benefit cuts or tax increases. Indeed, since the employer half of the payroll tax continued to be paid, while the payment of the benefits was shifted to the personal accounts, the Ryan-Sununu plan eventually resulted in very large Social Security surpluses, which allowed for payroll tax cuts. For these reasons, the Chief Actuary of Social Security scored the plan as achieving full solvency for Social Security.

Imagine how all workers accumulating hundreds of thousands or even millions in their own personal accounts by retirement would transform society. The Chief Actuary calculated that under Ryan-Sununu after just 15 years with the personal accounts, working people all across America would have accumulated \$7.8 trillion in their accounts, in real terms after adjusting for inflation. That would climb to \$16 trillion after 25 years.

Moreover, all those funds would pour into our economy as mighty rivers of increased capital investment, rapidly expanding economic growth. Those funds would finance the practical implementation of our rapidly advancing science, leapfrogging our economy further generations ahead.

In 1981, the South American nation of Chile, then with a Social Security system just like ours, with the same problems, adopted a personal account option similar to Ryan-Sununu, with astounding success. Virtually all workers chose the accounts within 18 months, and for 30 years now they have paid less into the accounts and gotten higher benefits, while their economy boomed with all the increased savings and investment.

In America itself, such a system was tried in 1981 as well, for local government workers in Galveston, Texas, who still enjoyed that option under the law then. Just as in Chile, for 30 years now they have paid much less into their personal account savings and investment system than required by Social Security, but receive much more in benefits. The analogous Thrift Savings Plan retirement system for federal employees has similarly worked spectacularly well now for nearly 30 years.

The personal account option can start at whatever level is feasible at first. A reasonable beginning would be to allow each worker the freedom to choose to switch half of the employee share of the Social Security payroll tax to such an account, which would be 3.1% of taxable payroll. The initial account option can also be limited by restricting it at first to younger workers.

As in Chile, workers would choose investments by picking a fund managed by a major private investment firm from a list officially approved and regulated by the federal government for safety and soundness. The personal account investments would be kept strictly separate from the rest of the company, again as in Chile, so any financial troubles the company might experience would have no effect on the personal account investments. This would also be very much like the highly successful private retirement investment systems used for the federal employee Thrift Savings Plan and for the private alternative to Social Security used for local government workers in Galveston, Texas.

The Chilean personal account system that has been so successful for 30 years now includes a government guaranteed minimum benefit for the personal accounts that is roughly equal as a percent of income to the average benefit under the U.S. Social Security system. That is feasible because market investment returns are so much higher than what completely uninvested, tax and redistribution, pay-as-you-go Social Security even promises let alone what it can pay. That is why in 30 years, even through the financial crisis, Chile has never had to make a payment on that guarantee. Through its regulation of the private investment firms among which personal account investors can choose, the government can limit and control the risks workers can take on with their personal accounts, preventing moral hazard from the guarantee.

In these circumstances, it would be politically sensible to simply guarantee that no worker with personal accounts will get less in total benefits than Social Security currently promises, rather than try to defend a complicated, more limited guarantee. Promised Social Security benefits are weak and marginal compared to what would be gained through a lifetime of real savings and investment. The possibility that the accounts would be unable to pay at least that much over a lifetime of savings and investment is, therefore, remote, making the politically desirable guarantee economically feasible.

Such a guarantee, which was included in the Ryan-Sununu bill as well, effectively enables the personal account system to maintain the social safety net of Social Security. That is a political key to enabling the sweeping, fundamental, structural change from a tax and redistribution system to a private savings, investment and insurance system.

No worker would be required to take this personal account option. They would each be perfectly free to stay in the current Social Security system as is, with no benefit cuts or tax increases. That is feasible because based on the experience in Chile and the score of the Chief Actuary of Social Security, virtually all workers can be expected to choose the personal accounts.

After the initial reform, the account option could be expanded over time, eventually to the full amount of the employee share of the payroll tax, 6.2% of wages. The accounts could then be further expanded to allow substitution of private life insurance for Social Security survivors benefits, and private disability insurance for Social Security disability benefits. This could be accomplished with another 2.3% of wages, as in Chile, coming out of the employer share of the tax. Eventually, the accounts could be expanded to cover the payroll taxes for Medicare, another 2.9% of wages, with the saved funds financing monthly annuity benefits used to purchase private health insurance in retirement. The personal accounts would then encompass an option for 11.4% of wages altogether, about one-fourth less than the current 15.3% payroll tax.

With the accounts then paying for all of the benefits currently financed by the payroll tax, that tax would eventually be phased out altogether. Workers would instead be paying into the family wealth engine of their own personal savings, investment and insurance accounts. In the process, government spending equivalent to about 10% of GDP would be transferred to the private sector, the largest reduction in government spending in world history.

Any plan for personal accounts for Social Security involves a transition financing issue. That arises because Social Security operates on a pay-as-you-go basis, with almost all of the money coming in immediately going out to pay current benefits. If part of the money coming in goes for savings and investment in personal accounts instead, additional funds will have to come from somewhere else to continue paying all promised benefits to today's retirees. The need for this transition financing phases out over time as workers retire relying on their personal accounts instead of payroll taxes.

This is a cash flow financing issue, not a matter of transition *costs*. What the transition is really financing is the increased savings and investment involved in shifting from a tax and redistribution, pay-as-you-go system, with no real savings and investment anywhere, to a fully funded, savings and investment system, just as with eliminating the unfunded liabilities of any underfunded pension plan. When you save \$1,000 in a bank, you don't think that cost me \$1,000. It doesn't *cost* you anything, because you still have the money, in your savings account. Of course, because you can't have your cake and eat it too, you can't spend the \$1,000 you are saving, or else you wouldn't be saving it. That may create a cash flow issue for you, depending on your personal finances. But it is not a matter of the savings *costing* you \$1,000.

The transition financing money is effectively financing the savings going into the personal accounts of working people across America. That accumulated savings and investment is not a cost to the economy, it is a mighty, productive contributor to the

economy. The working people seeing that money growing in their own personal accounts would certainly recognize that it is not a cost, but, in fact, an asset. The personal accounts are actually just a politically sophisticated means of shifting from the current, completely non-invested, tax and redistribution, Social Security system, to a fully funded system based on savings and investment, which should be readily recognized as the complete, responsible, desirable solution to the issue of Social Security.

But this transition financing would all be more than covered by the reduced government spending resulting from the other entitlement reforms discussed in this essay, further detailed in the book. With the transition financed entirely by such reduced spending, the personal accounts would produce entirely a net contribution to national savings and investment. The workability of this approach was demonstrated by the Ryan Roadmap, the comprehensive legislation introduced by now House Budget Committee Chairman Paul Ryan. That proposed legislation includes personal accounts for Social Security, fundamental reform of Medicare and Medicaid, general health care reform, tax reform, and other budget reforms. CBO officially scored the Roadmap as achieving full solvency for Social Security and for Medicare, and balancing the federal budget indefinitely into the future, completely eliminating all long term federal deficits, with no tax increases. In the process, the transition to the personal accounts for Social Security is fully paid for, effectively by the spending reductions.

President Obama mocks the idea of personal accounts, saying they risk your Social Security in the stock market. But personal accounts are only a choice open to each worker, no one imposes it on them. Moreover, nothing requires anyone with a personal account to invest anything in the stock market. They are free to choose from a wide range of market investments, including even government guaranteed alternatives if they want (on top of the guarantee already in the proposal).

To answer Obama's challenge, I joined with William Shipman, former Principal of State Street Global Advisors. Our work, published in the *Wall Street Journal*<sup>34</sup> showed that an average income two earner couple who retired in 2009 just after the worst of the financial crisis, who had saved and invested in a personal account option to Social Security for their entire lives, and invested it all in the stock market, would still have retired with \$850,000 in their accounts, almost millionaires. In fact, they were millionaires, until they lost 37% of their account funds in the year before retirement. But their accumulated funds were still enough to pay them 75% more than Social Security promises them. This is effectively a worst case scenario, since 1999-2008 was actually the worst 10 year stock market performance in America's history.

But didn't President Bush already try personal accounts for Social Security and fail miserably? My book discusses in detail why Bush failed with personal accounts as well. When Bush ran for President in 2000, he explicitly campaigned on empowering workers with the freedom to choose personal accounts for Social Security, employing all

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<sup>34</sup> William G. Shipman and Peter Ferrara, "Private Social Security Accounts: Still a Good Idea," October 27, 2010, p. A17.

the positive, populist themes originally envisioned for the reform effort, as discussed above. That included in particular contrasting the accounts and all of their benefits with the unpopular alternatives of cutting benefits or raising taxes. This worked spectacularly for him, even allowing him to win Florida by the narrowest of margins carrying the senior vote, which is what won him the Presidency.

But once elected, he turned to Beltway insiders to handle the project who were stuck inside the Washington Establishment box that insisted that Social Security reform was all about some combination of tax increases and benefit cuts. Under the new White House conception of Social Security reform, personal accounts became "the dessert" to make palatable the "spinach" of benefit reductions. The mantra came to be that "everything was on the table", every brutally unpopular idea, such as delaying the retirement age, or means testing, or changing the basic benefit formula, along with the one politically successful and transforming idea of personal accounts. All of this just buried all of the positives of personal accounts, and at best confused the public. Were benefits going to rise under personal accounts, or fall relative to income under price indexing? The public soon was lost. Personal account advocates warned them early and often that this would fail, but they proved impenetrable.

The fatal fallacy persists that it would be politically easier to cut benefits than to enact structural reforms like personal accounts. For all of the reasons discussed above, a populist, grassroots alliance can be generated to support personal accounts, which is the one Social Security reform idea ever to show support by large majorities in the polls. The alternative is to cut a deal with the Washington establishment that will slash Social Security returns and benefits for working people, at the price of agreeing to a tax increase for "balance." This would be politically crippling for Republicans.

#### A New Vision for Entitlements

This testimony projects a new, modernized, 21<sup>st</sup> century, vision for entitlements, thoroughly detailed in the book, harnessing capital, labor and insurance markets, and productive incentives, to achieve all of the social goals of those entitlements far more effectively, ultimately serving seniors and the poor far better. Yet, because those reforms rely on markets and productive incentives, the cost of those programs to taxpayers are dramatically reduced. Indeed, over time federal spending is reduced by half or more from where it would be otherwise, resulting in a complete solution to the nation's entitlement and fiscal crisis. These modernized entitlements directly contribute to economic growth and prosperity, rather than detracting from it.

This vision is consequently the key to unlocking the door to fundamental, fiscally necessary, entitlement reforms.

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General of the United States under the first President Bush. He is the author of *America's Ticking Bankruptcy Bomb*, now available from HarperCollins.

Testimony Prepared for the Hearing: The State of American Small Business  
United States House of Representatives  
Committee on Small Business

February 1, 2012

By

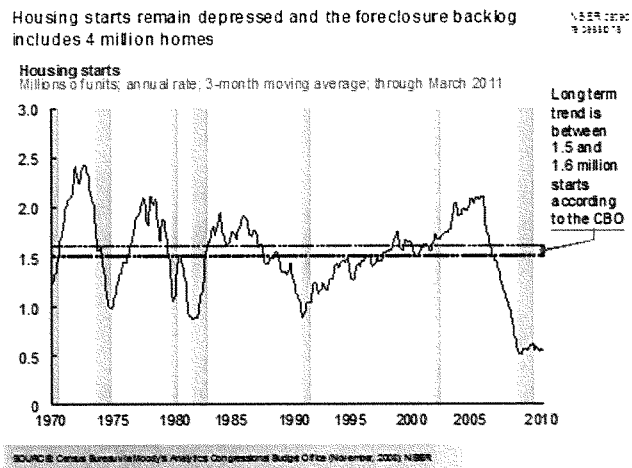
Martin Neil Bailly

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The author is a Senior Fellow and the Bernard L. Schwartz Chair at The Brookings Institution in Washington DC. He was previously the Chairman of the Council of Economic Advisers and a member of President Clinton's cabinet (1999-2001). He also served as a Member of the Council (1994-96). He would like to thank Barry Bosworth, Robert Litan, Bob Kocher, E.J. Reedy, Natalie McGarry and Elaine Yang for their assistance. The views expressed here are those of the author only.

### The Outlook for the U.S. Economy<sup>1</sup>

1. The recovery in the United States continues to be sluggish because of anchors weighing it down: The continued weakness in the housing market kept residential construction at depression levels. Historically, US recoveries have always featured a lift from housing and it may be another couple of years before all of the foreclosures are worked through. The good news is that residential construction has stopped falling, but housing prices are still flat or declining slowly on average. The housing problems are not spread evenly around the country but rather are concentrated in five states, California, Nevada, New Mexico, Florida and Michigan. Policy efforts by both the Bush and Obama Administrations to mitigate the ongoing tide of foreclosures have had only modest impacts, but it is worthwhile to keep trying to speed up the gradual adjustment process in the housing market. One response to the housing crisis has been that fewer new households have been formed as people choose to live with parents or share housing with others. Another response has been a sharp increase in the demand for rental housing, which has in turn triggered construction of multifamily units. The preliminary report for GDP growth in the fourth quarter of 2011 suggested that residential construction is growing again, although from a low base.

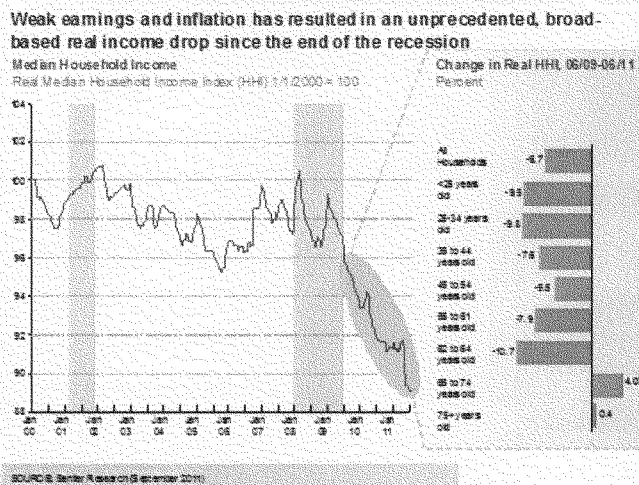


2. The weakness in the housing market has contributed to the loss of household wealth. The stock market has recovered much of the huge drop it took in the financial crisis as

<sup>1</sup> The data charts presented in this testimony have benefitted from my position as an advisor to the McKinsey Global Institute. McKinsey & Company does not endorse specific policies and the views expressed here are solely my own.

corporate profits have been good, but the volatility of markets has made it hard for consumers to take a lot of comfort from the partial recovery of financial wealth. The consumer deleveraging process continues as debt levels are reduced and borrowing remains subdued. Much of the reduction in household debt so far has come about through defaults and foreclosures rather than repaying debts.

3. Beyond housing, the other big anchor weighing down the economy is the weakness in household income that is driven primarily by the weakness in the labor market. In fact over the past several quarters, consumer spending has grown a little faster than disposable income, so the saving rate has declined slightly. Consumers are certainly cautious, but *the big reason consumer spending growth is slow is that income growth is slow or negative.*



4. There is a view that businesses in the US are holding back on investment and hiring because they are afraid of the impact of the huge budget deficits and by concerns about regulation. My own judgment is that by far the biggest reason for weak hiring is the lack of strong demand growth. However, it is important that Congress and the President put in place a comprehensive plan for reducing the budget deficit over the next ten years. And much could also be done to streamline regulation and make the decision-making process quicker. It is noteworthy that business investment, at present, is actually picking up quite well for equipment and software, and hiring is now looking stronger.
5. The other pieces that go into aggregate demand include government purchases, net exports, and inventories. Of these three, government purchases are declining now because of cutbacks by both the federal government and by states and localities. Clearly

there is a need for fiscal restraint but if federal spending is cut too quickly, this will have a short term negative impact on demand, something that is being demonstrated in the European setting. Net exports vary from quarter to quarter, but with a weakening global economy it will be surprising if there is much of a net positive effect of trade on US demand. Inventories are pretty much impossible to forecast and often have a big impact on GDP for a given quarter. As long as US production continues at a reasonable pace, inventory accumulation will help that growth but if growth were to weaken, an inventory cycle could easily be the catalyst for a double dip.

6. Despite these problems, the mood on the US economy here has improved in the past couple of months with many forecasters starting to revise up their forecasts instead of constantly revising them down. The stock market has done surprisingly well in the face of so much global uncertainty. In contrast, the likelihood of a recession in Europe is very high; indeed they may already be in a recession.
7. Few economists are expecting strong US growth this coming year but the chances of a double dip have diminished and growth in 2012 is likely to be in the range of 2 to 3 percent. There is some upside potential to this forecast if the European problems ease and consumer confidence builds. But there are also downside risks. A financial collapse or renewed crisis in Europe would take at least a percentage point off US growth and would likely induce a double dip recession. Another risk to the recovery is political deadlock over the federal budget, which would undermine market stability.
8. Concerns about Iran have pushed the price of oil to around \$100 a barrel and a new spike in oil prices would pose a substantial risk to the US recovery.

#### **The State of the Small Business Economy**

As all member of this committee know well, the small business sector is one of the great strengths of our economy, accounting for 64 percent of net new jobs historically. New and young businesses have generated 40 million jobs in the past 25 years representing 20 percent of gross job creation. Seventy six percent of high growth businesses are young businesses and these “gazelles” generate 88 new jobs a year compared to 2 to 3 jobs for all businesses on average. These numbers are from the Kauffman foundation. Unfortunately, the job creation prowess of small business has not been at the usual level in this recovery. The table below is drawn from the ADP employment survey<sup>2</sup> that breaks down employment into businesses that have 50 and over and those with fewer than 50. It shows that small business hiring in the second half of 2011 was pretty weak, although there was an encouraging jump in December.

<sup>2</sup> <http://www.adpemploymentreport.com/indexsbr.aspx>

## Small Business Report

### US Nonfarm Private Employment by Selected Industry Sector and Business Size

Derived from ADP Payroll Data  
(in thousands)

Industry / Business Size	Seasonally Adjusted						Change from: Nov.2011 Dec.2011p
	Jul. 2011	Aug. 2011	Sep. 2011	Oct. 2011	Nov. 2011p	Dec. 2011p	
<b>Total nonfarm private.....</b>	108,756	108,841	108,971	109,117	109,321	109,646	325
<b>Small Business (1-49)</b>	<b>49,264</b>	<b>49,320</b>	<b>49,391</b>	<b>49,461</b>	<b>49,570</b>	<b>49,718</b>	<b>148</b>
All Other Sizes (50+)	59,492	59,521	59,580	59,656	59,751	59,928	177
<b>Goods-producing.....</b>	<b>17,828</b>	<b>17,833</b>	<b>17,827</b>	<b>17,834</b>	<b>17,862</b>	<b>17,914</b>	<b>52</b>
<b>Small Business (1-49)</b>	<b>6,645</b>	<b>6,651</b>	<b>6,652</b>	<b>6,654</b>	<b>6,670</b>	<b>6,688</b>	<b>18</b>
All Other Sizes (50+)	11,183	11,182	11,175	11,180	11,192	11,226	34
<b>Service-providing.....</b>	<b>90,928</b>	<b>91,008</b>	<b>91,144</b>	<b>91,283</b>	<b>91,459</b>	<b>91,732</b>	<b>273</b>
<b>Small Business (1-49)</b>	<b>42,619</b>	<b>42,669</b>	<b>42,739</b>	<b>42,807</b>	<b>42,900</b>	<b>43,030</b>	<b>130</b>
All Other Sizes (50+)	48,309	48,339	48,405	48,476	48,559	48,702	143

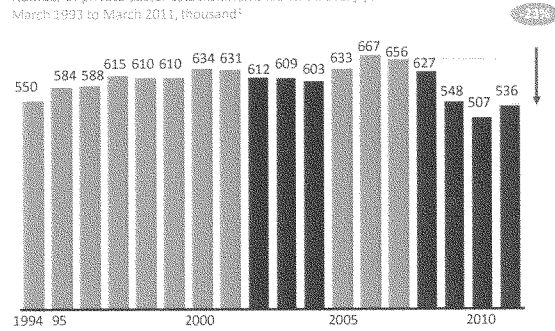
p = preliminary, subject to revision

### *The Reduction in Startups*

The financial crisis and the resulting deep recession have taken a big toll on small business. The chart below shows that the number of startup establishments has fallen off to a greater extent in this recession than in the 2001 recession. The ability of small business to generate employment depends heavily on a continuous flow of startups. A half of startups fail within five years as part of the uncertainty intrinsic to small business, and so there is bound to be a lot of job turnover in this sector. When there is an ample flow of new businesses getting started, this provides an extraordinary dynamism to the American economy. Economic recovery depends on a renewal of business startups.

## Very Large Decline in New Businesses in the Great Recession

Number of private-sector establishments launched every year  
March 1993 to March 2011, thousand<sup>1</sup>

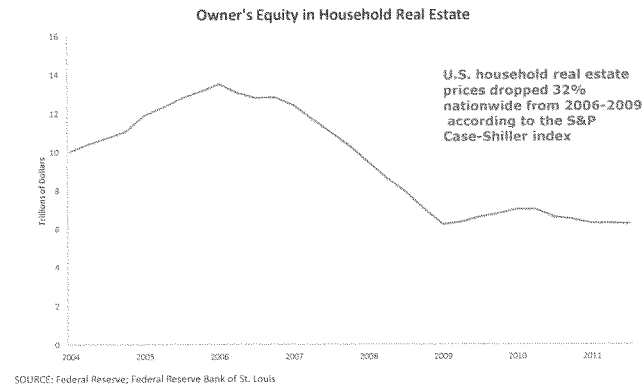


<sup>1</sup> Calculated using US Bureau of Labor Statistics Business Employment Dynamics data set. The annual number indicates the number of businesses less than 1 year old that were in existence in March of that year.

SOURCE: US Bureau of Labor Statistics; McKinsey Global Institute analysis

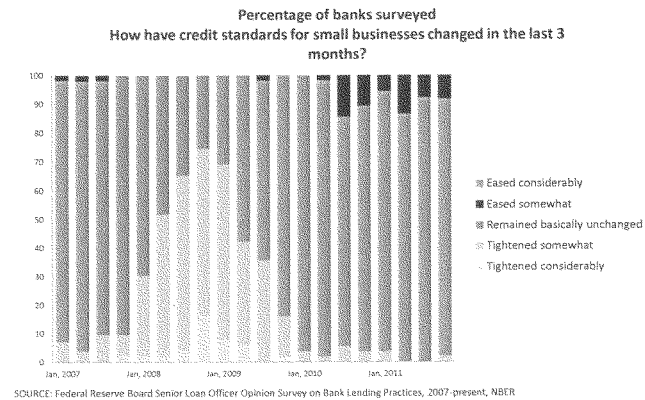
Why has the number of startups fallen so drastically? Certainly the general weakness in the economy and the lack of demand growth, but the sharp drop in startups has likely also been affected by the reduction in home equity and restrictions on lending. Many new companies are started by families or groups of friends that have an idea or decide to start a restaurant and get together to try how it works. In many cases the new company is funded by a pool of contributions from family members or from their own combined resources. As the chart below shows, there has been a very sharp drop in overall home-owners equity as house prices have declined over 30 percent with the bursting of the housing bubble. Only a small portion of homeowners were planning to start new businesses of course, but home equity has been a primary source of funds for startups. For many potential entrepreneurs, that money is no longer available.

### The Decline in Owner's Real Estate Equity has Made it Harder to Fund Startup Companies



In addition to the problem posed by lack of home equity, current or potential entrepreneurs have faced a much more difficult bank borrowing environment. During the height of the housing boom financial institutions were lending money with too little regard to the chances of being repaid, and a lot of loans have gone into foreclosure. There was a need to tighten lending standards and this was done. Unfortunately, the pendulum may have swung back too far in the opposite direction, making it difficult for new companies and existing companies to get funds for inventory or to fund expansion. The chart below shows data from the Federal Reserve on the proportion of banks that were tightening lending standards, easing them or leaving them unchanged. There was a wave of tightening in 2008 and 2009. Some modest easing of standards has occurred since then, but overall standards are still much tighter than they were.

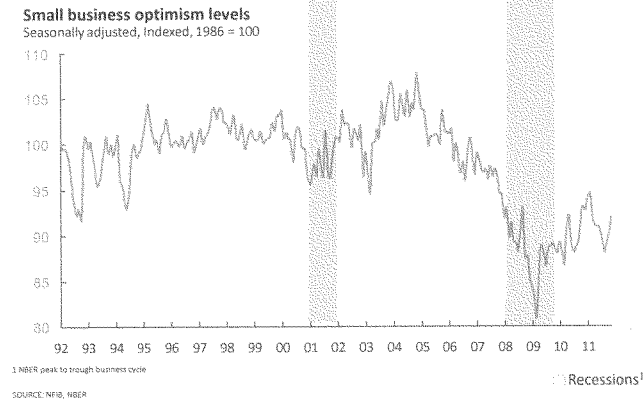
## Banks Tightened Credit Standards During the Recession. Only Partial Easing Since.



### *Lack of Sales and Optimism Among Existing Businesses*

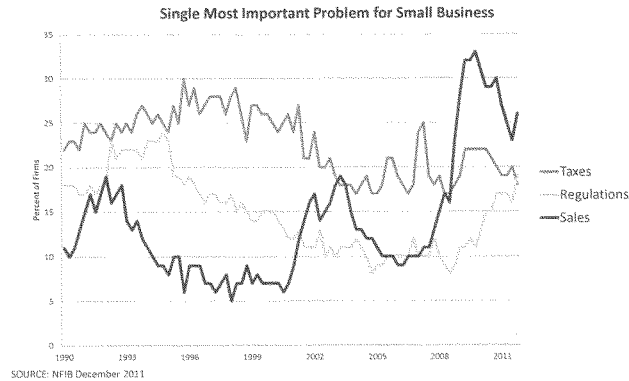
As well as a lack of new small businesses, there are also concerns about the health of existing small businesses. In the early stages of the recovery from the Great Recession there was some hiring by larger businesses, but very little from small business. This important part of the recovery was missing. The chart below shows that small business optimism peaked around 2004 and declined rapidly 2005-07. The financial crisis struck in 2007 and the recession hit with full force in the last half of 2008 and the first quarters of 2009. Small business optimism hit historical lows in the face of the Great Recession and has made only a partial recovery since then.

### Small Business Optimism Hit All-time Low and has only Partially Recovered



The National Federation of Independent Business has been surveying its members for many years and they provide a valuable reading on what small business owners see as their biggest problem. The chart below focuses on the pattern over time for three reasons that have been cited as among the most important, regulation, taxes and lack of sales. As the chart shows, lack of sales is the biggest problem in the current period, as it was in earlier recessions. This reinforces the view expressed earlier in this testimony that the biggest problem the small business economy faces is lack of demand. Taxes are a concern, but it is clear from the chart that this is a perennial concern. Concern about taxes has risen somewhat in the last few years, but it has not moved up sharply and has not reached the level it had in the 1990s. Regulation is an important concern among small business owners, understandably so, given the range of employment and other requirements they face, including many rules from state and local authorities. The chart does show that concern about regulation has also moved up since 2008. Much of that upward movement is surely associated with the introduction of the Affordable Care Act and I will talk more about that in a moment. Overall, however, it is noteworthy that both the concern about taxes and the concern about regulation among small businesses are lower now than they were in the mid 1990s. And of course the economy embarked on a terrific boom throughout the late 1990s.

### Poor sales is the top concern for small businesses, more than taxes or regulation



The conclusion on small business seems clear. The state of small business, captured mostly clearly by the optimism index, has been deteriorating for nearly seven years. It took a particularly sharp dive in 2008 and is now gradually recovering. I am not certain of all the reasons for the decline in the state of small business, but certainly the Great Recession is at the heart of it. Probably the boom-bust cycle of the real estate market that preceded the recession was also important. Such a cycle is not a good way to foster sustainable small businesses.

#### Small Business and the Affordable Care Act

The impact of the ACA on small business has become a major political issue. The NFIB and the Chamber of Commerce have been strongly opposed to the provisions of the act as they relate to small businesses. The opposition seems to be out of proportion to the content of the act itself. Most importantly, there are no requirements on businesses with fifty or fewer employees to provide insurance, nor are they required to pay a penalty if they do not provide health insurance. The table below shows that around 90 percent of small businesses are under 50 employees, a group that accounts for nearly 57 percent of total employment in the segment.<sup>3</sup> Moreover, a high fraction of larger establishments are already providing health insurance to their workers. An independent report by the Urban Institute<sup>4</sup> said that in 2009 81.6 percent of establishments with 25-99 employees provide coverage and 94.3 percent of establishments with 100 to 999 employees. Even for employers with more than fifty employees that do not currently provide insurance coverage, the financial penalty would be small. In its summary, the Urban Institute report says that employers with fifty employees and under stand to benefit from the

<sup>3</sup> The data do not give a breakdown for 50 and under, so the table slightly understates the share of establishments that are unaffected by the ACA. The definition of small business is under 500 employees.

<sup>4</sup> Urban Institute, The Effects of Health Reform on Small Businesses and Their Workers, June 2011, Washington DC.

subsidies built into the ACA. For employers in the 51 to 100 size range, the ACA will result in a “very small increase in total costs”.

**Around 90 percent of Small Firms or Establishments with 57 percent of Employment have under 50 Employees**

<b>2009</b>	<b>Firms</b>	<b>Establishments</b>	<b>Emp</b>
<b>1 to 49 as % of all small businesses</b>	<b>95.9%</b>	<b>89.9%</b>	<b>56.7%</b>

Source: Census Bureau, Business Dynamic Statistics, 2009.  
[http://www.ces.census.gov/index.php/bds/database\\_list](http://www.ces.census.gov/index.php/bds/database_list)

In short, it would be helpful if the public debate about health care and small business be more firmly grounded in the data. Small business men and women are indeed concerned about the impact of the ACA on their companies, but this may be largely the result of what they hear about it and not about the reality of how the act will affect their businesses.

#### **Policies**

Since the biggest problem that small businesses face is the lack of overall demand, the best policy remedy is to try and sustain and strengthen the slow recovery. The standard approach used to expand demand is for the Federal Reserve to adopt an easier monetary policy and for fiscal policy to become easier, either through tax cuts or expenditure increases, or both. Unfortunately, there are limits on the effectiveness of monetary and fiscal policy in the current economic environment. Risk free short interest rates are at or close to zero and even the 10-year Treasury is yielding only 1.9 percent. That is about as much as can be done. On the fiscal side, policy has been hampered by the legacy of deficits and by the global sovereign debt crisis. If the federal government had run budget surpluses or even balanced budgets during the growth years prior to the recession, we could afford to spend more money now on stimulating demand. As it is, the combination of the recession itself and the expansionary fiscal policies that were followed earlier have left us with large deficits and debt levels that are rising rapidly.

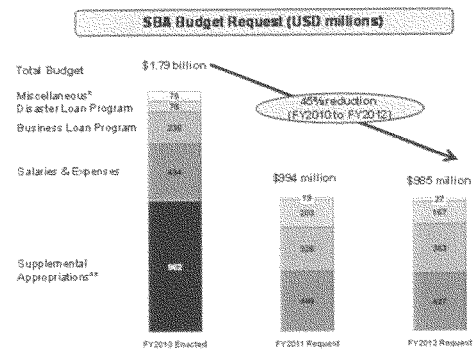
The best policy prescription for the economy today is for policymakers to agree on a plan to balance the budget, or get close to balance, over the next ten years. This plan should include a modest fiscal stimulus for 2012—I support the extension of the payroll tax cut for all of 2012—and a realistic framework for raising the level of tax revenues once the economy recovers and for controlling spending growth, particularly federal spending on health. If the President and Congress were to agree on such a plan, it would greatly enhance consumer confidence, business confidence and the stability of markets. Since the chances of this happening are very low, I would settle for the modest stimulus for 2012 and hope that reason prevails on the budget in 2013.

*Policies Specifically for Small Business*

**Credit.** The amount of borrowing by small businesses is still depressed and it is hard to know exactly the extent to which this is the result of lack of desire to borrow or inability to borrow. Surely both are at work. Many small businesses can fill their current orders without any expansion or investment and they are not looking to borrow. But there are many other small businesses that would like to borrow but cannot meet credit requirements, especially as they lack equity in their homes that would have provided collateral for a loan a few years back. One approach is to make sure that bank regulators are using reasonable standards as they assess the risks that banks are taking in loans to small business. No one wants to go back to a time of excessive lending, but the Federal Reserve and other regulators should make sure funds are available to promising small businesses with a good chance of paying the loan back. Some level of default is inevitable and is reasonable. Our economy must be willing to take some risks and regulators should not stand in the way of sound business loans.

Another approach to expanded lending is through the Small Business Administration. In 2010, the SBA received supplemental appropriations to expand its support of small business lending. As I said earlier, there is a great need to move towards budget balance, but since the economy remains sluggish right now, there is a strong case for making more loans available this year and not fewer. Of course we should not waste taxpayers' money on bad loans, but SBA has done an excellent job under Karen Mills and should have the opportunity to make a bigger contribution to economic recovery.

**The SBA Has Seen its Resources Cut Sharply Since 2010**



**The Startup Act of 2012.** With bipartisan sponsorship, the Startup Act, if passed, would provide a much needed boost to small business formation in the United States. The proposed act has a number of provisions that I believe would be very helpful, including easing the restrictions on visas for entrepreneurs; granting a permanent work visa to an employer that hires a minimum

number of Americans; and providing green cards to students that graduate in STEM subjects. Also proposed in the act are patent reform and an easing of academic licensing restrictions. The Act also suggests ways to reduce the barriers to new business formation, reducing regulatory barriers and making sure regulatory rules pass a cost-benefit test. One of the biggest concerns in this area is the slowness of the permissions process for new establishments and this comes in part from the fact that federal, state and local officials do not coordinate their decisions. The regulatory process needs to be streamlined. The President has indicated his desire to do this and needs support from Congress in achieving this goal.

I do not agree with every provision in the Startup Act of 2012, but I strongly urge the House to consider this important legislative proposal. It could form the basis for a bipartisan bill that would provide substantive help to startups and hence to American economic growth.

**Skills.** There are many employers that find they cannot find the skilled workers that they need. We need more demand in the economy in order to add to the number of jobs, but we are also missing out on jobs that are already available but that cannot be filled because workers lack the skills necessary. Improving skills and education of the workforce is a long term project that cannot be achieved quickly. But it is important to start, for example, by fostering partnerships between businesses and community colleges and by promoting the use of new technologies to make education and training more efficient. The Armed Forces have developed short term training programs for recruits so that they can master complex weapons systems, maintain equipment and other vital tasks. These successful military training programs can provide a model for private sector training.

#### **Conclusion**

I appreciate the opportunity to present my views to this committee. The small business sector is a vital one to our economy and a driver of economic growth and employment. The Great Recession has hit almost everyone hard and the small business sector is unfortunately still very much a work in progress in terms of its recovery. I am confident that this resilient part of the economy will recover and help America restore its vitality and optimism.



**“The Path to Job Creation: The State of American  
Small Businesses”**

**Testimony of:**

**Michael Fredrich  
President and Owner  
MCM Composites  
Manitowoc, Wisconsin**

**Before the**

**Committee on Small Business  
United States House of Representatives**

**February 1, 2012**

**The Honorable Sam Graves (R-MO), Chairman  
The Honorable Nydia Velazquez, (D-NY), Ranking Member**

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***Protecting Small Business, Promoting Entrepreneurship***

Good afternoon Chairman Graves, Ranking Member Velazquez and members of the committee. Thank you for hosting this important hearing today and for your invitation to provide testimony. My name is Michael Fredrich, President of Manitowoc Custom Molding, LLC (MCM Composites). We are a custom molder of thermoset plastic parts. MCM Composites produces a wide range of precision products from many different raw materials. We specialize in thermoset plastic molding, enabling us to focus our capital and effort on continually improving our thermoset knowledge, expertise and technical capabilities. I am also a member of the Small Business & Entrepreneurship Council (SBE Council), a nonpartisan, nonprofit advocacy, research and training organization dedicated to protecting small business and promoting entrepreneurship.

On October 31, 2001, fifty days after the 911 attack, I leveraged everything I had worked for and saved to acquire MCM Composites. It was a dream realized and I have never regretted the decision. In addition to the 911 aftershocks there were all the normal business risks to which everyone who ventures into the free market is subjected. Certainly the Great Recession was a very rough period, and I made many personal and financial sacrifices to keep MCM Composites in business. Fortunately, through hard work, dedicated employees, confidence from our bank, and some luck we overcame a rough start and celebrated our 10<sup>th</sup> anniversary last year. The hurdles we overcame were difficult but we always had the ability to control our own fate. We now face a risk which dwarfs all others and which we cannot control. We face a country risk.

I now worry more about our nation than about the company. We can compete and be successful but only if the free market capitalist system and our country remain strong. I worry about our nation's economic weakness and the ability of our political leaders to adequately address critical and mounting issues. On top of serious spending and fiscal issues, new legislation passed by Congress, the ever changing and confusing actions of the Federal Reserve, and what appears to be the insouciance of Washington regarding the level of Federal debt creates a level of uncertainty in the private sector which will only result in stagnation and decline. The future will be a bleak one without meaningful action to get spending under control and if Congress does not fix several costly and harmful pieces of legislation enacted during the past couple of years.

Some specific areas of concern and uncertainty include:

**Access to Capital:** The lifeblood of any business is capital (cash). The primary source of capital for small businesses is commercial banks. Our company has a relationship with a privately held community bank. When asked how Dodd-Frank will affect our banking relationship the president and owner replied that he was not sure because the law is still being implemented, but he knows the law will be expensive for the institution. The 1,400 page bill is expanding by another 1,300 pages of “details.” Our bank has one compliance officer, and most banks believe they will be forced to hire additional officers – that is, if they can afford one.

The general theme of Dodd-Frank is to favor managing risk through systems not people and culture. People, not ratios and statistics, pay back loans. If our bank had only been looking at our numbers in our early years of business we would be long gone. Through faith in our abilities and our character they stuck with us during very difficult times.

Dodd-Frank will make it difficult for community banks to stay in business. If they are able to survive the regulatory burden and its costs their culture will surely change -- no more relationship banking.

There is no doubt Dodd-Frank will limit small business’ access to capital.

**Inflation:** QE3 will be the third attempt by the Fed to stimulate the economy. It will fail as did QE1 and QE2. What is certain is the inflation this expansion of the money supply will create. The only question is “when?” We experienced a series of raw material price increases in mid-2011 ranging from 5-7%. No evidence of price increases so far this year, but it is early. Given the level of excess bank reserves and the adjusted monetary base all elements are in place for inflation, or worse, stagflation.

**Health Care:** Our company offers a high deductible HSA health care plan. The policy renews each June. Last year the premiums increased nearly 14%. We shopped for competing plans, but every insurance provider (five in total) that we approached chose to “max quote” -- they quoted a premium 85% higher than our current premium. Our current provider was limited by statute to a 15% increase in premiums. There clearly was no interest by any

of the health insurance carriers we approached to write our business. Our existing carrier is required by law to renew our policy. We essentially had one choice -- pay 14% more for the same coverage or offer no coverage at all.

The Patient Protection and Affordable Care Act is working as designed, not as its supporters said it would. It is raising costs while reducing options. The end result will be to push everyone into a single payer government run health care system.

**Rise of Dependency:** The number of Americans receiving some form of federal aid is shocking. More and more people are becoming dependent on the federal government. The Census Bureau reports that 49% of the population now resides in a home where at least one person receives some form of federal aid. The number was less than 33% in 1983 -- how far we have come.

Our company has some real life experience with the latest class of dependents which I call the "happily unemployed". These are people who could work but choose not to. Their main job is to make sure they do everything required to qualify for unemployment. They often take part time jobs for cash to supplement the government check. Since Congress continues to extend the time people are allowed to collect unemployment there seems to be little risk for this new dependent class. Their only apparent risk is not doing the minimal amount required to remain on the program. Many of these individuals wait until Friday afternoon to collect the requisite number of signatures to prove they are doggedly looking for gainful employment. They show up in our lobby to ask if we are hiring and to get a signature. We make them fill out an application before we sign their form which irritates many of them. Some attempt to apply from the comfort of their home. They simply call and ask the name of the person answering the call (it is never given).

A long gap in work history is never a selling point. A person who sits idle for 99 weeks on unemployment when jobs are available (temporary help firms in Manitowoc have many openings) has permanently damaged their personal capital.

A nation which has more takers than producers -- and we are perilously close -- is not a nation with a good economic future. The conversion of

people from producers to takers for political gain is awful.

**The Debt Blob:** The greatest risk to our future prosperity is our federal debt -- funded and unfunded. Please understand that the current level of federal spending and debt accumulation is not sustainable. Small business owners know this, and that is why they are most concerned about this issue. A recent survey released by SBE Council and the Financial Services Forum in November found that small business owners believed that changes to federal fiscal policy would be the most single most effective strategy to encourage hiring and to get the economy back on track: 22% called for enactment of a credible plan to reduce the budget deficit; 20% urged the permanent lowering of federal tax rates; 9% said a reduction of social security taxes for employers would help; 6% felt all federal regulations should be assessed; 3% wanted a moratorium on all new regulations.

The federal government is spending \$10 billion per day of which we are borrowing \$4 billion. The federal debt is over \$15 trillion. During the eight years of the Bush administration \$3.2 trillion was added to the debt total. If nothing changes (nothing will) we will be at \$16.4 trillion by year end. All this and the Senate has not passed a budget in over 1,000 days. Our nation is in a debt death spiral and both political parties carry the blame.

We can look forward to the next Kabuki dance performance over raising the debt ceiling. Meaningless cuts in spending will be traded for leveraging our future and the problem will be kicked down the road -- probably until after the election.

Our nation is technically bankrupt but not yet insolvent -- other nations (not all friendly) are still willing to purchase our debt. When this ends, and it will, our options will be limited. My guess is the Federal Reserve will monetize our debt (print money) to support the welfare state. They have already inflated the currency as is evidenced by the price of gasoline and food -- two factors which are excluded from the CPI (another deception).

The rule in our company is you can complain about anything as long as you propose a solution. My solution is to stop this madness in its tracks by not raising the debt ceiling. Prioritize spending. Interest payments on federal debt get top priority and everything else is on the table. Work within your cash flow. Stop using the word "entitlement." Entitlements in government are like fixed costs in business -- they are not really fixed they are just difficult

to confront.

**Summary:** Many of the people I know who own small businesses had a pretty decent 2011. But there are many other business owners in our state and across the country who continue to have difficulty generating sufficient revenues to cover high energy, health care and other costs. MCM Composites happened to have a record year. However, optimism is tepid in the small business community.

In the SBE Council/Financial Services Forum survey noted above, small business outlook for the economy is not great -- 79 % indicated they expect current economic conditions to persist for at least another year, and 53% expect current conditions to continue for 18 months or more. The U.S. economy needs to be growing much more robustly to create the jobs our nation needs, and to encourage greater entrepreneurship.

Small businesses do not have the flexibility multinational corporations have to diversify country risk. We are generally “stuck” here and can only hope it is not too late to reverse our trend toward permanent stagnation.

Thank you and I look forward to your questions.

Dennis Jacobe, Ph.D., Chief Economist, Gallup

1. Dr. Jacobe, in your testimony you suggest that government regulation has become “a major concern for the nation’s small businesses” and recommend that this Congress implement a one year moratorium on all new regulations. If this recommendation were implemented, would you agree that you are abandoning any cost benefit analysis of new rules? I assume you do not believe any regulations may in fact benefit health and safety conditions for workers or do not consider that to be a contributing factor to the health of this nation’s economy.
2. Dr. Jacobe, can you provide me with a list of the top ten regulations that are having a substantial negative impact on small businesses?

Thursday, October 25, 2012

Dennis Jacobe, Ph.D., Chief Economist, Gallup

1. Dr. Jacobe, in your testimony you suggest that government regulation has become "a major concern for the nation's small businesses" and recommend that this Congress implement a one year moratorium on all new regulations. If this recommendation were implemented, would you agree that you are abandoning any cost benefit analysis of new rules? I assume you do not believe any regulations may in fact benefit health and safety conditions for workers or do not consider that to be a contributing factor to the health of this nation's economy.

Response: A regulatory moratorium would temporarily suspend cost-benefit analyses for the period of the one-year moratorium. This does not mean I think regulations are not important. I believe a balanced set of regulations taking into account a cost-benefit analysis and including the relevant externalities is a net benefit to society. I also believe people can honestly hold different positions on these analyses and therefore can differ on the need for and type of regulations appropriate in different situations.

Instead, my proposed regulatory moratorium is based on Gallup survey responses and the condition of the U.S. economy. As we all know, operating conditions are extremely difficult for today's small businesses. Rightly or wrongly, our results show many small business owners feel new regulations are making their operating environment much more difficult right now. This has created a very negative psychology among small business owners and potential owners. Although there might be some costs associated with deferring some new regulations, I think it is worth that potential cost to temporarily make small business owners feel like they no longer face the costs associated with potential new regulation. This is a behavioral economics based suggestion on my part, and one with which I recognize others might disagree.

2. Dr. Jacobe, can you provide me with a list of the top ten regulations that are having a substantial negative impact on small businesses?

Response: Unfortunately, Gallup has not done any polling that would allow us to list the top ten regulations that are having a substantial negative impact on small businesses. As you know, this is complicated by the way different regulations have differential impacts on companies in various industries. If Gallup has the opportunity to survey small businesses with a large enough sample to provide results to your question, we will be glad to share those results.



**The Computing Technology Industry Association**

**Testimony Before the**

**House Small Business Committee**

**The Path to Job Creation:**

**The State of American Small Businesses**

**February 1, 2012**

**Introduction.**

Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee, on behalf of the Computing Technology Industry Association (CompTIA) we appreciate the opportunity to submit testimony for the record. We wish to thank Chairman Graves and Members of this Committee for holding this hearing on job creation for small businesses. The topic of this hearing is critical. The majority of American job growth and innovation comes from small companies. In order to fuel economic expansion, we must assure that entrepreneurs and small businesses have the tools they need to grow and prosper.

**About CompTIA.**

The Computing Technology Industry Association (CompTIA) is a non-profit trade association representing the \$3 trillion global information technology (IT) industry. CompTIA membership includes over 2,000 members and 1,000 business partners. Our members are at the forefront of innovation and provide a critical backbone that supports broader commerce and job creation. These members include computer hardware manufacturers, software developers, technology distributors, and IT specialists that help organizations integrate and use technology products and services. CompTIA is dedicated to serving its membership by advancing industry innovation and growth through its educational programs, market research, networking events, professional certifications, and public advocacy.

**Background.**

Small businesses are the backbone of the American economy. There are approximately 30 million small businesses in the United States, which represent over 99 percent of all employer firms and employ over half of all private sector employees. Many participants in the IT industry are independent small businesses that provide a variety of functions for customers they serve. A sizeable portion of anticipated work force growth will emanate from start-up and small- and medium-sized (SMB) information technology firms. The SMB sector of the IT industry accounts for about 40% of industry jobs, or more than 2 million workers, and 163,000 employer businesses that maintain a payroll. The tough economic climate of the last few years has placed severe strains on many of these small businesses, with little relief in site.

There are a number of actions Congress should take on a bipartisan basis to spur job growth and innovation in the small businesses. We have summarized our recommendations below.

## I. Access to Capital.

One of the most critical concerns has been the lack of access to capital. Whether seeking equity or debt financing, small businesses have experienced significant difficulty gaining access to capital, which stunts their growth potential. For some time, CompTIA has been calling on Congress and the Obama Administration to advance technology progress and job creation by providing small businesses and entrepreneurs with greater access to growth capital. We believe that the government can play a valuable role in paving the way for access to capital for small IT firms, which have a unique capacity to create jobs, produce commercial and technological innovations, and spur long-term economic growth. Better access to capital would allow these firms to develop new products, expand distribution channels, open new export markets, secure new customers, and fortify infrastructure. In this regard, CompTIA has called for direct-lending opportunities for small, growth-oriented technology firms. This need has been especially highlighted in view of the shortcomings of the Small Business Lending Fund legislation, which provides indirect assistance (with significant obstacles) to small businesses through intermediary lending institutions.

While we continue to support efforts to increase loans to growth-oriented small businesses, there are additional measures that should be taken to increase access to equity capital. However, because of strict, complicated, and costly equity investment regulations and requirements, most small businesses have been effectively cut off from raising equity investments for their businesses. However, we believe that modest steps can and must be taken that will benefit small businesses in dire need of equity capital and also assure necessary safeguards for investors. This can be a win-win situation for investors, small businesses, unemployed citizens, and our national economy.

**A. Crowdfunding.** We have examined two proposals dealing with crowdfunding: H.R. 2930, "Entrepreneur Access to Capital Act," which passed the House by a wide margin on November 3, 2011 and is now awaiting action in the Senate; and S. 1791, "Democratizing Access to Capital Act of 2011," as introduced by Senator Brown on November 2, 2011. This Senate bill is currently under the jurisdiction of the Senate Committee on Banking, Housing, and Urban Affairs awaiting further action.

First, let us say that our membership is broadly supportive of efforts to enact simplified crowdfunding procedures. We view this as one avenue of revitalizing small business investment, which is needed to grow our economy and create jobs. With that said, we have analyzed both pieces of legislation and will summarize our specific recommendations.

In general, the House-passed legislation allows for a higher individual level of investment but contains additional compliance burdens for small businesses. CompTIA is concerned that the regulatory requirements in H.R. 2930 will add undue complexity and cost, which is contra to the very reasons crowdfunding legislation,

was explored and introduced in the first place. The Senate bill would ease regulatory burdens on small businesses but lowers the individual level of investment. Both bills would allow up to \$1 million to be raised in a 12-month period; the House bill would allow up to \$2 million if audited financial statements are provided to the investors. CompTIA supports inclusion of the optional \$2 million limitation provided by the House version. We believe that businesses should be allowed the higher limitation when audited financials are provided.

Further, CompTIA supports the higher individual investment limitation of \$10,000, limited to 10% of income, as provided under the House version. We understand that the Senate version seeks to protect investors by limiting exposure to a maximum of \$1,000; however, \$1,000 is simply too low, especially in situations where the company provides additional documentation, such as audited financial statements. Also, in many situations, investors will actually be other small businesses that are quite familiar with the issuer, as opposed to uninformed individuals. We do understand the need for safeguards to protect unwitting investors. However, we need to balance this with the benefits to be gained by legitimate offerings and the resultant value to our economy as a whole; neither can or should be absolute.

Generally, we support the requirements detailed under the Senate bill for issuers who do not use an intermediary in the offering. Under that legislation, issuers would be required to:

- Disclose to investors all rights of investors, including complete information about the risks, obligations, benefits, history, and costs of the offering; and
- File such notice with the Commission as prescribed.

While we understand the intent of the detailed provisions contained in the House version is to protect investors, the many requirements placed on issuers would likely mire down the process and increase the cost of the offering, which is contrary to the goal of this legislation: *Streamline the offering process for small businesses in order to increase equity investment*. The basic question is how much should be required of the issuer in order to both protect the investor and maximize the issuer's ability to raise equity investment. We believe that rather than detailing each specific step, the safeguards provided in the Senate version requiring full disclosure and SEC notice reporting is a reasonable balance.

Finally, we commend the state filing pre-emption provision contained in the House legislation, while preserving the ability of states to protect its citizens from fraud and other abuses. Businesses are continually burdened with filing and compliance requirements from the multiplicity of federal, state, and local jurisdictions. A single set of filing rules that would apply nationally is critical to the success of crowdfunding legislation.

## **B. Other Proposed Access to Capital Reforms.**

*Increase Exemption for Small Company Public Offerings.* CompTIA supports legislation that would amend Regulation A of the SEC rules as it pertains to filing compliance. In short, H.R. 1070/S. 1544, the “Small Company Capital Formation Act of 2011,” would reduce the filing and compliance burdens for certain small businesses that seek to raise capital through a public offering of stock. Simply put, this bi-partisan legislation would increase the current \$5 million limitation up to \$50 million. This move is simply an updating of the antiquated \$5 million limitation. As we have stated before, our economy clearly needs additional equity investment. Increasing the Regulation A exemption is an obvious adjustment that should be made immediately.

*General Internet Solicitation in Public Offerings.* There also have been discussions concerning a possible amendment of Regulation D of the SEC rules so that the Internet could be used to solicit public offerings. In today's economy, both investors and businesses survive and prosper with Internet applications and transactions. Clearly, the Internet offers issuers both the ability to broaden their visibility and access to investors. With proper safeguards, it is no longer rational to bar issuers from employing the Internet in developing and promoting their equity offerings. The time has come for our securities laws to recognize that the Internet is here to stay and that it can actually be used to by issuers and investors alike to increase opportunities for equity investment in our economy.

## **II. Payroll Tax.**

A CompTIA survey of 420 small technology companies conducted in mid-2011 found that the top tax issue was simplification and reduction of payroll taxes. The significant percentage of respondents citing this issue highlights the direct impact these taxes have on small IT businesses and their ability to expand their workforce. Legislation should be enacted to reduce both the payroll tax and the compliance costs of filing these payroll tax returns.

**A. Payroll Tax Reduction.** While the recent legislative discussion has focused on a reduction in the employee portion of the payroll tax, a similar reduction should also be extended to small employers, which are the engines of job creation. Accordingly, CompTIA supports provisions such as contained in H.R.12, the “American Jobs Act of 2011,” which would provide a 50% reduction in payroll tax for employers.

**B. Payroll Tax Simplification.** Generally, employers are required to file Form 941 on a quarterly basis to report and pay over federal income tax withholdings, social security and Medicare tax. Very small employers are allowed to replace the four quarterly Form 941 filings with a single annual Form 944, but this only applies

those businesses with an annual liability of \$1000 or less. CompTIA supports extension of this annual reporting option to a greater number of small businesses. According to the SBA Office of Advocacy, in 2009, 27.2 million small businesses had fewer than 500 employees. Assuming a de minimis cost of \$100 for the preparation of each payroll tax return, the total annual compliance costs for payroll tax return preparation for these small businesses was \$10.9 Billion (27.2 million businesses x 4 returns x \$100). This cost could be reduced by 75% -- a savings of \$8.16 billion -- if these small businesses were allowed to file annually. CompTIA supports legislation that would extend annual payroll tax reporting to all small businesses.

### **III. Sales Tax on Internet Sales.**

States have long been concerned about the loss of sales tax revenue resulting from interstate sales, and the problem has only been exacerbated by the growth in Internet sales. For CompTIA members the main issues are certainty and costs of compliance.

Although the term "Internet Taxation" has become common in tax policy debates and proposals, the Internet is merely the facilitating medium: The core issue is actually one of "*interstate* taxation," not "*Internet* taxation." Any legislation concerning Internet/interstate sales tax collections must properly address both:

- The compliance burden imposed on businesses by the lack of uncertainty as to which state can tax a transaction; and
- The compliance burden that would be imposed on businesses to pay, collect and/or remit sales taxes for all states/taxing jurisdictions.

It is important to note, that any proposed legislation requiring businesses to collect and remit sales tax from interstate transactions is a shifting of the administrative burden for payment of such taxes from individuals to businesses. Currently, individuals are required to pay use taxes, but due to the inability of the states to enforce this requirement, the states now seek to shift this burden to businesses. The addition compliance costs of this action will disproportionately affect small businesses.

The Main Street Fairness Act (H.R. 2701 and S. 1452) would require any seller to collect and file sales tax returns on all interstate sales. The intent of this legislation is to bring some uniformity to state sales tax requirements. However, it would require even small businesses to collect sales tax and file returns for any sales made into another state, which would institute a prohibitive compliance cost for many small businesses. While this legislation requires the states to adopt a "small seller" exemption, the legislation does not set forth any criteria for what constitutes a "small seller," leaving that up to the states implementing the taxing system.

CompTIA is opposed to legislation mandating the collection of interstate sales tax unless that legislation (i) exempts small businesses, and (ii) provides specific criteria defining which small businesses are exempted.

The Marketplace Equity Act of 2011 (H.R. 3179) would allow a state to enforce collection of sales tax on sales made into its borders from an out of state seller. This legislation does exempt businesses with \$1 million or less total remote sales or \$100,000 or less remote sales into a single state. However it is important to note that the Small Business Administration (SBA) definition of a small Information Technology Value Added Reseller (exception to NAICS code 541519) is a business having 150 employees or less, without regard to revenue. For other categories of computing businesses (NAICS codes 541511, 541512, 541513 and 541519) the SBA definition of a small business is one with average annual receipts of \$25 million or less. CompTIA supports legislation that provides a specific small business exemption, however, the exemption level provided in H.R. 3179 is too low.

While we understand the need of the states to collect sales tax that is properly owing, the burden for such collection should not be placed on the back of small businesses. This added burden would cause many small businesses to withdraw from interstate commerce due to the additional compliances costs. Accordingly, CompTIA supports a strong small business exemption for any legislation that would shift the burden of collecting sales tax from individuals to businesses.

#### **IV. Expiring Tax Provisions.**

There are number of important tax provisions that Congress allowed to expire or be scaled back, each of which are important to small technology businesses. CompTIA supports reinstatement of the following provisions at the 2011 levels:

**A. Research and Development Credit.** The 20 percent credit for qualified research expenses expired for the 15th time on December 31, 2011. The R&D tax credit benefited companies that incur expenses in the development or improvement of products and technologies. The overwhelming component of qualifying expenses is salaries, compensating workers for their innovative ideas.

**B. Small Business 179 Expensing.** For 2010 and 2011, the maximum allowable deduction was \$500,000, with a phase-out beginning at \$2 million. This \$500,000 was not extended, so the limitation for 2012 has declined to \$125,000 (with a \$500,000 phase-out); in 2013, the limitation will drop to \$25,000 (with a \$200,000 phase-out). Also the special expensing provision for real property was not carried over to 2012.

**C. Bonus Depreciation.** For 2011, businesses were allowed an additional 100 percent bonus depreciation; this limitation has decreased to 50 percent in 2012 and will end for 2013 and forward.

**D. Small Business Stock Exclusion.** For certain “Qualified Small Business Stock” acquired after September 27, 2010, and before January 1, 2012, investors will be allowed to exclude 100% of the gain, provided the stock is held for five years. The 2012 sunset date was not changed. Therefore, there is no incentive for investors to make small business stock investments in 2012.

**E. Work Opportunity Tax Credit.** The work opportunity tax credit will not be available for employees who begin work after December 31, 2011. This credit provided employers a tax credit of up to 40 percent on wages paid to certain targeted groups, including veterans, vocational rehab workers, food stamp recipients and certain Supplemental Security Income recipients.

### **Conclusion.**

America is clinging to its spot as the world leader in technology innovation. Unless we move to improve the ability of small businesses and entrepreneurs to access capital, our current economic climate will continue to stagnate, and job creation will be anemic. We can also improve the business situation of our small technology businesses through payroll tax reforms, which will encourage maintenance and creation of jobs, as well as substantial savings in compliance costs. And, in an increasingly complex system of state tax compliance burdens, we can aid small businesses to compete in interstate commerce by including a strong small business exemption in any legislation that seeks to transfer the burden of sales tax collections from individuals to businesses. Finally, it is essential to extend the expiring tax provisions for small businesses to support our continuing economic recovery by encouraging and aiding in job growth.

There is no single bullet that will strengthen the path to job growth for small businesses. However, there are many small steps, as we have suggested, that will work together to encourage job creation. We call on Congress to support small businesses to grow and prosper, which in turn will propel our economy to the benefit of the entire nation.

ROSCIOLI



**Marine Industries Association of South Florida  
Careers for Veterans**

Under the auspices of the Marine Industries Association of South Florida ("MIASF"), this *Steering Committee's recommendation* is to offer career positions to Veterans in marine businesses in South Florida. MIASF is an association of yacht manufacturers, marinas, boatyards, brokers, suppliers and related business located in South Florida for the purpose of promoting boating in the region. The Steering Committee ("Committee") is a group of ten influential business leaders of the MIASF concerned about the continued growth of the marine sector in Fort Lauderdale's economy.

A 2010 Economic Impact Study of the marine business in South Florida commissioned by the MIASF found that there was a significant decline in the industry between 2005 and 2010. Taken as a whole, the Tri-County area comprising Broward, Dade and Palm Beach saw a reduction in marine sales of some 36% during the five years. Among local officials, the thinking is that a lack of qualified employees in the area to service yachts is among the reasons that cause these yachts to migrate to the other destinations for their services.

The importance of the marine industry to South Florida is too great to allow this decline to continue. Even in this diminished state, the industry contributes too much to the economic success of each county. In 2010, the overall economic impact of the industry was \$7.4 billion for Broward County, \$540.9 million for Dade and \$923.3 million for Palm Beach, a combined total of \$8.9 billion in gross output. Some 200,000 jobs are dependent upon the industry.

To assist in reversing the decline, the industry needs qualified employees now and into the future. Technical skills such as carpenters, fabricators, electricians, and painters are urgently needed as well as administrative support staff. A readily available source of these skills is the Veterans coming out of the military. The Committee wants to alleviate its skills shortage, by tapping into the pool of Veterans coming out of the Afghanistan and Iraq wars. This is an innovative idea that if successful in South Florida, can be replicated nationwide. Not having tried before, the program needs the encouragement of the local, state and federal governments. Each stands to benefit from the program's success. The expected benefits are both tangible and measurable — an increase in the gross output and tax base for local cities and a marine career for Veterans leaving the military.

**Internal Strife**

Upon evaluation there is no internal strife that requires the attention of the government.

**Leadership**

- MIAF
- YPI
- USSA, SYBass, NMMA (National/International Marine Industry Partners)
- Federal, State and Local governments

**Statistics**

Economic Impact Studies (Appendix B)

**Summary:**

- ① The recreational marine industry needs assistance facilitating communications with all agencies whose regulations affect the industry.
- ② The United States is unable to attract 90% of the large yacht economy to this country, due to the onerous regulatory environment. Attracting this business to the United States would mean a massive influx of spending and jobs.
- ③ The marine industry associations in the United States have worked in concert to develop a list of critical tasks and are working to develop a series of strategies that will address those regulations that are the biggest obstacles to attracting the large yacht business, as discussed in this document.

February 10, 2012

The Honorable Sam Graves  
Chairman  
Committee on Small Business  
U.S. House of Representatives  
Washington, D.C. 20515  
Via electronic mail

Dear Chairman Graves:

During the question and answer portion of the February 1, 2012 hearing "The Path to Job Creation: The State of American Small Business" hosted by the Committee on Small Business, the Ranking Member -- The Honorable Nydia Velazquez -- asked me if I knew the size of our bank. I speculated it was in the \$300-400 million dollar range (it has \$600 million in total assets). I was discussing the negative impact the Dodd-Frank legislation will have on small businesses access to capital. I noted that my banker remained unsure as to the full impact and burden of Dodd-Frank because the regulations were still being written and formalized. He noted it would impact his operations.

The ranking member stated that the legislation did not apply to banks with under \$10 billion in assets, which ended the exchange. Ranking Member Velazquez was partially correct with respect to some of the provisions of Dodd-Frank, but seemed to indicate that I was wrong in my statement that Dodd-Frank would hurt small institutions as my banker said the new law would. The Dodd-Frank legislation *does* affect banks under \$10 billion. There are certain provisions which affect only banks with assets in excess of \$10 billion but *all banks* are under its influences which will ultimately make it more difficult for small businesses to access capital. These banks are also concerned about the new Consumer Financial Protection Bureau (CFPB) and its reach and regulatory impact.

Also, please note the following testimony provided by Greg M. Ohlendorf, President and Chief Executive Officer, First Community Bank and Trust, Beecher, Illinois on behalf of the Independent Community Bankers of America before the Committee on Small Business, Subcommittee on Economic Growth, Tax and Capital Access on June, 16, 2011 regarding Dodd-Frank and its impact on small business lending:

"The Dodd-Frank Act was generational legislation and will permanently alter the landscape for financial services. Every provider of financial services -- including every single community bank -- will feel the effects of this new law to some extent. Undeniably, it will result in additional compliance burden for community banks and will be challenging for them. The full and ultimate impact won't be known for years, depending on how the law is implemented and how the market adjusts to it. There's still an opportunity to improve some negative provisions in the law -- with the help of this committee and Congress -- and provisions that could be helpful to community banks are still at risk of being weakened in the implementation."

I kindly request that this letter be submitted to the record, as I did not have the opportunity to respond to the Ranking Member's statement.

Thank you,  
Mike Fredrich, President, MCM Composites  
Manitowoc, Wisconsin

cc: The Honorable Nydia Velazquez, Ranking Member, Committee on Small Business,  
U.S. House of Representatives



**National Association  
for the Self-Employed**

Legislative Office  
325 7th Street, NW, Suite 250  
Washington, DC 20004  
P: 202-466-2109  
F: 202-466-2123  
www.NASE.org

**Statement for the Record  
Submitted to the Committee on Small Business  
United States House of Representatives  
Washington, D.C.**

**Submitted by Kristie Arslan  
CEO & President, National Association for the Self-Employed  
February 1, 2012**

The National Association for the Self-Employed (NASE) respectfully request this official statement for the record on today's hearing, "The Path to Job Creation: The State of American Small Businesses." NASE on behalf of its member's thanks you for your continued focus on addressing the concerns of the self-employed and small business owners that are negatively impacted by burdensome government regulation and continued tepid economic and consumer confidence.

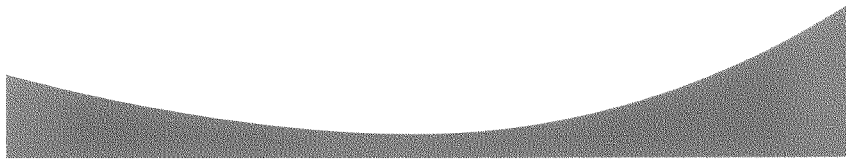
Public policy data, including the October 2011 Gallup poll, consistently identify the same concerns and fears of the nearly 27 million self-employed and micro-business owners accounting for nearly 99.9% of all businesses in the United States. Sadly, the self-employed and micro-business community is largely marginalized during important legislative and regulatory discussions, even though they bear the brunt of over burdensome regulation.

However, hearings like this allow America's smallest businesses to be heard as they express valid concerns as to what is impacting their ability to fully harness the economic potential of their businesses. As we look towards addressing these concerns, NASE encourages legislative action that would reduce burdensome regulation, encourage consumer confidence, and provide much needed capital to small businesses.

- Encourage Senate passage of the H.R. 527, *Regulatory Flexibility Improvements Act of 2011*;
- Continued strong oversight of the Consumer Financial Protection Bureau to ensure that regulatory proposals do not unfairly burden or restrict the self-employed or small businesses;
- Full year extension of the temporary payroll tax deduction for 2012;
- Extension of important expiring tax provisions that were passed in the Small Business Jobs Act;
- Increase access to various streams of capital, both within the SBA loan program and financial institutions.

The self-employed and micro-businesses owners are the economic engines of the U.S. economy and by advocating for the removal of burdensome regulation and supporting pro-growth economic initiatives NASE believes that economy would be unleashed on the strength of these critical businesses.

Kristie Arslan, CEO & President  
National Association for the Self-Employed



**STATEMENT FOR THE RECORD**  
**THE FINANCIAL SERVICES ROUNDTABLE**

**On**

**The U.S. House Committee on Small Business**

**Hearing on**

**“The Path to Job Creation: The State of American Small Businesses.”**

**February 1, 2012**

The Financial Services Roundtable (“Roundtable”) respectfully offers this statement for the record to the U.S. House Committee on Small Business hearing on **“The Path to Job Creation: The State of American Small Businesses.”**

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

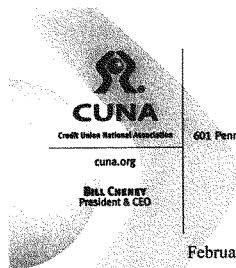
**The Roundtable Supports Small Business:**

The Roundtable shares Congress' and the Administration's goal of supporting small businesses. The Roundtable is steadfast in its commitment to help our nation's economy by helping to create jobs through small-business lending. Small businesses are the linchpin of our nation's economic growth and well-being. Small businesses have historically led job creation during previous economic recoveries and should certainly play a leading role in helping our country through the still challenging economic climate. Given their significance in creating jobs and innovation in the U.S., we must ensure that viable small businesses have access to financing so that aspiring entrepreneurs and existing small businesses can help lead our country's economic recovery.

The federal government plays a key role in creating an environment where small businesses can thrive and expand. The President's decision to elevate the SBA Administrator to a cabinet-level position is a positive signal. Included with this Statement is a report the Roundtable released in November 2011 entitled, "How the Financial Services Industry is Supporting Small Business." One of the issues the report highlights is more than 25 large banks have increased small business lending in 2011, with one bank boosting lending by 90 percent from 2010 levels. Other findings include the fact that banks are lending more than \$600 billion to small businesses of all sizes. Additionally, the largest banks have pledged *an additional \$100 billion* for 2011 and beyond.

While the efforts discussed above are positive steps, we know more work has to be done to make sure capital reaches the aspiring entrepreneurs and small business owners who need it. The Roundtable supports the committee's efforts to review areas where it can support small businesses, as well other alternative avenues, to help create business opportunities through innovative policy solutions that will help create a foundation to build a strong and prosperous economy. We believe small business issues are critical to our nation's health and deserve nothing less than Congress' full attention. We stand ready to continue to work with the small business community, Congress, and the Administration to help our nation's economic recovery.

In closing, the Roundtable thanks the Subcommittee for the opportunity to comment.



601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | Phone: 202-508-6745 | Fax: 202-638-3389

February 1, 2012

The Honorable Sam Graves  
Chairman  
Committee on Small Business  
United States House of Representatives  
Washington, DC 20515

The Honorable Nydia Velazquez  
Ranking Member  
Committee on Small Business  
United States House of Representatives  
Washington, DC 20515

Dear Chairman Graves and Ranking Member Velazquez:

On behalf of the Credit Union National Association (CUNA), I am writing regarding today's hearing entitled, "The Path to Job Creation: The State of American Small Businesses." CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 93 million members. We appreciate the opportunity to submit this letter for the record of the hearing.

Since their inception in the United States over 100 years ago, credit unions have been lending to their small business-owning members. Meeting the credit needs of entrepreneurial members is part of credit unions' DNA.

During the recent financial crisis, credit unions stood with their small business owning members, continuing to lend when others have pulled back access to credit. In fact, the difference in behavior between credit unions and banks with respect to small businesses over the last several years is quite remarkable. From December 2007 until September 2011, credit union business loan portfolios increased over 42% while bank small business loans decreased by over 14%.<sup>1</sup>

Credit unions would like to stay in the game and continue to help their members, but the credit unions which have contributed much of the growth over the last several years are finding themselves increasingly affected by the statutory cap on credit union member business lending.<sup>2</sup> Approximately 525 credit unions are either approaching or very close to the business lending cap. These credit unions have been the major contributors to credit union business lending growth over the past few years – accounting for 83% of the total loan growth in credit unions subject to the cap.

<sup>1</sup> FDIC and NCUA Call Report data, and CUNA analysis.

<sup>2</sup> Most credit unions are currently under a business lending cap of 12.25% of total assets, expressed as 1.75 times net worth required to be well-capitalized (7%), established by law in 1998. Prior to that date, there was no statutory business lending cap for credit unions.



PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | Phone: 608-231-4000

The Honorable Sam Graves  
The Honorable Nydia Velazquez  
February 1, 2012  
Page Two

We continue to urge Congress to enact H.R. 1418, the Small Business Lending Enhancement Act, which would raise the credit union business lending cap from 12.25% of total assets to 27.5% of total assets. This legislation would permit credit unions to lend an additional \$13 billion to small businesses in the first year after enactment, helping them to create 140,000 new jobs at no cost to taxpayers.<sup>3</sup>

The need for Congress to enact this legislation is clear. According to a recent survey by the Small Business Majority, Main Street Alliance and the American Sustainable Business Council, 64% of small business owners say that the availability of credit is a serious or fairly serious problem. Sixty-one percent say that it is harder today to get a small business loan than it was four years ago. Ninety percent support making it easier for community banks and credit unions to lend to small businesses.<sup>4</sup> We agree: more needs to be done to help small businesses and the economy recover, and credit unions are in a position to help, if Congress acts.

The only groups that oppose credit unions business lending represent the banks that have pulled back access to credit when small businesses needed it the most, and have taken taxpayer money intended for small business lending and repaid their TARP obligations. These banks have done enough to prevent small businesses from accessing the capital they have needed over the last several years. Congress should not let them prevent willing and able lenders from helping small businesses recover from the economic crisis, by opposing this legislation.

On behalf of America's credit unions and their 93 million members, we encourage you to cosponsor H.R. 1418, the Small Business Lending Enhancement Act.

Best regards,



Bill Cheney  
President & CEO

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<sup>3</sup> For a detailed description of the methodology used to develop the lending and job creation estimates, please see page 12-13 of CUNA's testimony before the House Financial Services Committee of May 18, 2010. [http://www.cuna.org/download/congress\\_testimony\\_051810.pdf](http://www.cuna.org/download/congress_testimony_051810.pdf)

<sup>4</sup> Small Business Majority, Main Street Alliance and the American Sustainable Business Council conducted a survey of 500 small business owners with 1 to 99 employees between December 8, 2011, and January 4, 2012. The results were published in a report, "Opinion Survey: Small Business Owner Opinions on Access to Credit and Proposals to Boost the Economy," on January 26, 2011, which can be found: [http://www.smallbusinessmajority.org/small-business-research/access-to-credit/access-to-credit\\_opinion-poll.php](http://www.smallbusinessmajority.org/small-business-research/access-to-credit/access-to-credit_opinion-poll.php)

## How the Financial Services Industry Is Supporting Small Business

November  
2011



## Letter from Steve Bartlett, President and CEO

*We dedicate this report to the tens of thousands of men and women across America who work in the financial services industry as lending officers, insurance agents and financial planners and who support small businesses every day in their local communities.*

*America's  
small  
businesses –  
now more than  
27 million of  
them, or nearly  
one for every 10  
citizens – have  
generated 64  
percent of new  
jobs.*


Small businesses are vital to our nation's economy and job creation, and the financial services industry is supporting them in unprecedented and innovative ways.

Over the past 15 years, America's small businesses – now more than 27 million of them, or nearly one for every 10 citizens – have generated 64 percent of new jobs. This proportion of small business job creation is *even higher* in the early stages of an economic recovery.

This special report highlights two primary ways our industry supports small businesses:

- Lending: More than 25 large banks have increased small business lending in 2011, with one bank boosting lending by 90 percent from 2010 levels. Other findings: Banks are lending more than \$600 billion to small businesses of all sizes; the largest banks have pledged *an additional \$100 billion* for 2011 and beyond; and commercial banks with more than \$10 billion in assets make half of all small business loans.
- Non-Lending: More than 30 major financial services companies say they have extended non-lending support to small businesses in 2011. Other findings: Millions of small business owners rely on financial institutions for insurance, retirement planning and financial planning; many financial services companies offer free education, networking, online portals and rebates to small

*The largest banks  
have pledged an  
additional \$100  
billion for 2011  
and beyond.*

*The Financial Services Roundtable* 

business owners; and financial services companies help small businesses manage disasters by relaxing collection efforts, reducing pricing and offering disaster bridge loans.

In short, members of the Financial Services Roundtable are helping small businesses in myriad ways throughout the year. We will continue to share with you how our members and financial services companies in general are helping the vital small business community.

I give special thanks to Abby McCloskey, the Roundtable's Director of Research, for directing and authoring this report. Please do not hesitate to contact me at [Steve@fsround.org](mailto:Steve@fsround.org), or Abby, at [Abby@fsround.org](mailto:Abby@fsround.org), if you have questions or comments.

Best regards,



Steve Bartlett  
President and CEO  
The Financial Services Roundtable

## Small Business

*The real story about what the financial services industry is doing to assist small businesses in 2011*

---

November 2011

### Key Takeaways

- **Historic Steps:** The financial services industry and the federal government have taken historic steps to help support small businesses.
- **Credit Needs Met:** The vast majority of small businesses report their credit and capital needs are met.
- **Billions Lent and Pledged:** The financial services industry has extended \$607 billion in loans to small businesses of all sizes in 2011. The nation's largest financial services companies have committed to increase their small business lending by an additional \$100 billion.
- **Support Beyond Lending:** Small business assistance is about much more than lending. The financial services industry offers continuing education, insurance, retirement security, financial planning and many other benefits for millions of small businesses.

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## Executive Summary

As America continues its path to economic recovery, small businesses must be an integral part of fueling job creation. The member companies of the Financial Services Roundtable understand this – they serve small businesses in communities all across the nation. They are dedicated to helping these companies and their owners be successful, and offering them increased tools to do so.

Financial services companies have committed billions in additional funds, and they're strengthening their small-business loan officer ranks to handle the loan activity. They're also delivering a wide range of nonfinancial help. All of this assistance forms the basis of this Financial Services Roundtable report.

Financial institutions extended \$607 billion in loans to small businesses in the first half of 2011. Most recently, the largest of them committed to boost their small-business lending by an additional \$100 billion in 2012 and beyond. The help already has made a difference: 93 percent of small businesses surveyed report their credit and capital needs are met.

A record amount of Small Business Administration-backed also have been extended by financial institutions. At the end of September 2011, small business loans backed by the SBA reached \$30 billion, the highest mark in the agency's history.

Support to small businesses goes beyond lending. The industry offers continuing education, insurance, retirement security, financial planning and many other nonfinancial benefits to help the industry get back on their feet.

*Most recently, the largest financial institutions  
committed to boost their small-business lending  
by an additional \$100 billion in 2012 and  
beyond.*

### Section 1: Small Businesses Today

Vibrant small businesses are crucial for the American economy and job creation. Small businesses create the majority of new jobs in the U.S. each year and, after past recessions, the small business community has been the main driver of economic recovery.

But today's economic environment is a challenge for many companies. Ninety percent of U.S. small business owners believe the U.S. economy is on the wrong track, and nearly a quarter think their best business days are behind them, a U.S. Chamber of Commerce survey released Oct. 12, 2011, found. The majority of businesses do not plan on hiring or making capital investments in the next 6-to-12 months.

*The financial services industry has extended more than \$600 billion in loans to small businesses as of the second quarter of 2011, Federal Deposit Insurance Corporation data shows.*

To help small businesses gain access to the resources they need, the financial services industry and the federal government have taken historic steps to improve credit and other financial services.

The financial services industry has extended \$607 billion in loans to small businesses of all sizes as of the second quarter of 2011, Federal Deposit Insurance Corporation data shows. Commercial banks with more than \$10 billion in assets are responsible for half of the small business loans in the U.S., and many of these banks have committed to lending even more in the coming year. For example, the large commercial banks surveyed in this report have committed, on aggregate, an additional \$100 billion in small business loans for 2012 and beyond.

## Section 1: Small Businesses Today

On Sept. 20, 2011, Vice President Biden announced a \$20 billion commitment by 13 major banks to increase lending to small businesses in underserved communities over the next three years.

The following banks were represented at Vice President Biden's announcement in Solon, Ohio (all of which are Roundtable members):

Wells Fargo	M&T Bank	KeyCorp
Regions	Huntington	JP Morgan Chase
Citi	Bank of America	TD Bank
U.S. Bancorp	PNC	Citizens Financial Group
SunTrust		

Additionally, the financial services industry and federal government have partnered to extend a record amount of SBA loans. At the end of September 2011, small business loans backed by the U.S. Small Business Administration reached \$30 billion, the highest mark in the agency's history. The first quarter of FY2011 was the most active single quarter ever for SBA-backed loans (more than \$12 billion supported). This is more than four times the amount for the same quarter in 2009.

In large part due to these efforts, the credit market for small businesses has remained active during 2011, and the overwhelming majority of small business owners (93%) reported that their finance needs are met or they are not interested in borrowing in the September 2011 survey of the National Federation of Independent Business.

However, helping small businesses is about more than lending.

Insurance companies, investment companies, financial planning companies and other members of the financial services industry also meet the needs of small businesses.

*The first quarter of  
FY2011 was the  
most active single  
quarter ever for  
SBA-backed loans  
(more than \$12  
billion supported).*

**Section 1: Small Businesses Today**

As will be discussed further in Section 3, Roundtable companies have waived fees for business customers, developed online and mobile business platforms, extended insurance coverage at discounted rates, provided disaster assistance,

donated millions of dollars in microloan programs and community-development funds, conducted educational and networking events for small business owners, and more.

This is just the beginning.

Financial services companies are working with small business owners across the country to learn how to meet their needs in unique and innovative ways. In this report, you will see a sample of their current efforts and glimpse what is to come in 2012.

*In large part due to these efforts, the credit market for small businesses has remained active during 2011, and the overwhelming majority of small business owners (93%) report their finance needs are met or they are not interested in borrowing.*

## Section 2: Small Business Lending

**Key takeaways for small business lending in 2011:**

- \$100 billion of new small business loans pledges made
- Hundreds of small business loan officers hired
- 15 to 90 percent increase in small business lending per company
- Record amount of SBA loans extended (\$30 billion)

In October 2011, the Financial Services Roundtable surveyed its members to determine what individual companies are doing this year to help small businesses access credit.

The survey revealed that the nation's largest financial services companies have committed to increase their small business lending in 2011-2012. Many companies have hired additional small business loan officers to assist in lending efforts. Other companies have focused their lending efforts on specific areas of the country hardest hit by the recession. And still others have found innovative ways to account for collateral in an economic environment where collateral is hard to come by.

Below is a collection of member company responses about how they are improving small business lending:

**Increased Lending**

- **Bank of America's** new credit originations to small businesses in the first half of 2011 climbed more than 35 percent over the same period last year. Bank of America has hired more than 400 small business bankers in recent months and plans to hire roughly 1,000 total by mid-2012.

## Section 2: Small Business Lending

- **Bank of the West** increased loans to small businesses by 89 percent in the year ended August 2011. Additionally, the bank has doubled its number of small business bankers.
- **BB&T** is the No. 1 SBA Large/National Bank lender in North Carolina and Virginia.
- Through September 2011, **BBVA Compass** small business lending was up more than 35 percent from a year earlier.
- **Capital One's** number of loans rose 19 percent in 2010 from the previous year. Overall, Capital One originated a large volume of small business loans in 2010 – 187,075 loans totaling \$2.9 billion. The average loan was for \$15,000, and 98 percent of all loans were for \$100,000 or less.
- **Chase** provided more than \$12.6 billion in credit to over 300,000 small businesses in the first three quarters of 2011, a 71 percent increase over the same time last year. In the past three years, the bank has hired more than 1,100 new bankers to serve more than 2 million small businesses. Chase is America's largest SBA lender in number of loans. *Citizens Financial Group has more than doubled its lending to businesses with annual revenues of \$25 million or less over last year.*
- **CIT Group Inc.** provided more than \$1 billion in new loan commitments during the quarter ended June 30, 2011, an increase of nearly 30 percent over the first quarter.
- **Citizens Financial Group** has more than doubled its lending to businesses with annual revenues of \$25 million or less over last year and has launched education programs for small business owners.
- **First Niagara Financial Group** has completed an \$8 million loan agreement with Northeast Builders Supply & Home Centers. The deal exemplifies First Niagara's commitment to providing local businesses with tailored lending solutions responsive to their needs and strengths.

## Section 2: Small Business Lending

*PNC originated or renewed*

**\$1 billion**

*in small business loans in  
the third quarter of 2011.*

- **Fulton Financial** provides focused small business lending through 273 community banking offices.
- **HSBC Bank USA, N.A.**, increased small business new loan origination by 15 percent year-over-year in the first nine months of 2011.
- For SBA fiscal year 2011, **KeyCorp** produced \$219 million in SBA approvals, resulting in a 92 percent increase over 2010 making Key the ninth largest SBA lender in the country.
- **M&T Bank** is the sixth largest SBA lending in the nation for the 2011 SBA fiscal year, increasing their SBA originations by 47 percent over 2010. M&T Bank has generated more than \$225 million in loans for micro businesses. M&T Bank reaffirmed its commitment to small business owners, pledging to increase lending by \$50 million above 2010 levels for each of the next three years.
- **People's Bank** commitment to helping Connecticut's Community Economic Development Fund lend to small businesses will total \$1.8 million since CEDF's founding in 1994.
- **PNC** originated or renewed \$1 billion in small business loans in the third quarter of 2011.
- In the year ended August 2011, **SunTrust** originated more than \$80 million in loans to small businesses with annual revenues of less than \$5 million.
- Starting in November 2008, **Synovus** began using accounts receivables as collaterals to increase small business lending.
- **U.S. Bank** set a new company record for SBA loan approvals with a total of \$630 million for the SBA fiscal year ended Sept. 30, 2011. The previous U.S. Bank record, set in 2008, was \$504 million.
- **Wells Fargo** made \$10.3 billion in new loan commitments to small businesses in the first three quarters of 2011 – an 8 percent increase in new dollars loaned from the same period last year. In 2011, the company became the first to lend more than \$1 billion in SBA loans in a single year.

*Small Business, November 2011 | 13*

## Section 2: Small Business Lending

and it has been America's top SBA lender in dollar volume for three consecutive years.

- **Zions** has ranked as Utah's No.1 SBA lender for the past 17 consecutive years. Zions Bank approved 597 SBA 7(a) loans in Utah totaling \$48.7 million for the fiscal year ended Sept. 30, 2010. These loans represent 36 percent of the 1,677 SBA-backed loans approved in the state during fiscal year 2010.

## Commitment to Future Lending

*Regions  
committed to an  
additional \$200  
million increase  
in lending over  
the next three  
years to help  
small businesses  
grow and put  
more Americans  
back to work.*

- **BMO** will make an additional \$5 billion available to small- and medium-sized businesses over the next two years to support the economic recovery by spurring business investment and job creation.
- **Citi** pledged \$24 billion in U.S. small business lending over the next three years, including \$7 billion this year, \$8 billion in 2012 and \$9 billion in 2013. Last year, the company made \$6 billion in small business loans, compared with \$4.5 billion in 2009.
- **Fifth Third Bank** has the capacity to extend \$28 billion in new and renewed credit to qualified commercial and small business customers through July 2012.
- **First Commonwealth Bank** has increased its focus on helping small businesses in recent years and now has nearly 30 Business Banking Officers partnering with 112 branch offices throughout its 15-county footprint to promote and grow relationships with local businesses.
- **Huntington** plans to lend \$4 billion to small businesses in the Midwest over a three-year period, with a stepped increase in small business lending through 2012 and beyond.
- **KeyCorp** commits to \$5 billion in small business lending over the next three years.
- **Regions** committed to an additional \$200 million increase in lending over the next three years to help small businesses grow and put more

**Section 2: Small Business Lending**

Americans back to work. As of August 2011, Regions has booked nearly \$5 billion in new and renewed small business loans, a 16 percent increase in new loan production as compared to 2010.

- **TD Bank** has committed to growing small business loans by 70 percent above 2010 levels over the next three years. In 2011, TD Bank doubled its SBA lending sales force, and increased its conventional small business sales team by 20 percent.
-

## Section 3: Other Types of Small Business Support

**Key takeaways for small business support in 2011:**

- Millions of small business owners helped with disaster assistance, retirement planning, and insurance
- Free education provided to thousands of small business owners
- Millions of dollars spent with women-and minority-owned businesses
- Award-winning online platforms developed for small businesses

Small business support is about much more than lending. Business insurance, financial planning, disaster response, and other financial services are crucial to supporting small businesses.

The Roundtable's October 2011 survey revealed that member companies are helping small businesses in many significant and varied ways.

Below is a collection of member company responses about how they are supporting small business.

**Insurance and Retirement Security**

- The **Allstate** Protection segment has a separate organization called Emerging Businesses which includes business insurance for small business owners. Allstate invested \$165.8 million with 1,978 women- and minority-owned businesses in 2008.
- **BB&T Insurance Services** provides small business insurance expertise through dedicated small business insurance agents. For the eighth straight year, it has provided this service to small business customers at an 11 percent growth rate.
- **The Hartford** provides award-winning tools and educational resources that help small business owners understand insurance and feel confident about what they're buying. It launched an interactive online guide to explain workers' compensation in simple English. It also created The

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## Section 3: Other Types of Small Business Support

*The Allstate Protection segment has a separate organization called Emerging Businesses which includes business insurance for small business owners. Allstate invested \$165.8 million with 1,978 women- and minority-owned businesses in 2008.*

Business Owner's Playbook®, which helps identify and address important issues facing small business owners. It provides insurance protection for more than a million small business owners.

- **ING U.S.** supports small businesses with 401(k) plans. ING expanded its service offerings to help employers satisfy their ERISA responsibilities and launched a plan enrollment program that leverages the use of mobile technology. ING U.S. also introduced a Self Owned Life and Retirement (S.O.L.A.R.) platform designed to supplement non-qualified retirement accumulations while providing salary continuation death benefit protection. Additionally, ING U.S. partners with national and local Hispanic chambers educating and serving minority-owned small businesses on insurance and retirement needs.
- **LPL Financial** acquired National Retirement Partners, Inc., to help support small- and medium-sized businesses with employee retirement solutions, including group annuities and 401(k) plans.
- **State Farm** continues its commitment to small business, offering insurance and financial services to help small business owners recover from the unexpected and realize their dreams.

## Online Tools

- In the 2011 second quarter, **Capital One** launched Clear Interest Business Checking, a first-to-market, high-interest checking account for businesses, helping time-strapped small business owners simplify money management. Capital One Bank's Clear Interest Business Checking is one of the first high-interest checking accounts offered for small businesses since 1933.
- **Discover Financial Services'** website offers numerous articles on setting up and running a small business. In terms of disaster relief, Discover may offer to relax collection and activation efforts and provide pricing concessions for merchants, depending on the size and scope of the disaster.

## Section 3: Other Types of Small Business Support

*E\*TRADE Bank announced a new \$2 million, 15-month pledge to Operation HOPE, which helps small businesses in low-income communities apply for loans.*

- **Fulton Financial** is committed to relationship-based business owner education and training with its online Business Resource Center, providing interactive "how-to" workshops and toolkits about starting, marketing, financing, managing, growing and protecting your small business. The corporation's six community banks survey their small business customers to determine educational needs and then, after listening, deliver webinars in response to commonly shared business topics.
- **MasterCard** launched MasterCard Small Business Education Series webinars to help small businesses stay abreast of their industries and continue learning about topics that will help them run their businesses better.
- Barlow Research Associates, Inc. honored **U.S. Bank** with a 2011 Monarch Innovation Award, recognizing the company's ScoreBoard online payments-management tool for small businesses. The ScoreBoard tool helps them make smarter decisions about the financial operations of their business.
- **Wells Fargo** provides support, guidance and reliable information to small businesses through its online content delivery portal called the Business Insight Resource Center.

## Additional Offerings

- **Ameriprise Financial** invested \$284 million in securities backed by Agency Small Business Administration loans as of June 30, 2011.
- **Ares Capital Corporation** made more than \$1.4 billion in new investment commitments during the quarter ended September 30, 2011, an increase of more than 170 percent from the year-ago period and more than 55 percent above the 2011 second quarter. Ares Capital invests primarily in U.S. middle-market companies.
- **BancorpSouth** offers a \$100 cash incentive to small business owners who transfer their small business checking accounts to BancorpSouth.

## Section 3: Other Types of Small Business Support

*LPL Financial  
acquired National  
Retirement  
Partners, Inc. to  
help support  
small- and  
medium-sized  
businesses with  
employee  
retirement  
solutions,  
including group  
annuities and  
401(k) plans.*

- **Citibank** offers small business customers free checking for one year.
- **Citizens Financial Group** supported small businesses impacted by recent natural disasters with a Disaster Bridge Loan Program. These bridge loans provide money immediately to businesses to pay their obligations and necessary operating expenses until such time as they receive long-term government funding from the SBA's Disaster Loan Program.
- **City National** will waive up to \$3,000 in closing costs on first trust deed loans it makes under the SBA 504 Loan Program and also will waive the bank's loan-origination fees when new funds are deposited in a business checking account.
- **Comerica** donated \$50,000 to ACCION Texas to expand microloans and spur small business growth in the San Antonio market.
- **E\*TRADE Bank** announced a new \$2 million, 15-month pledge to Operation HOPE, which helps small businesses in low-income communities apply for loans.
- In recent months, **First Commonwealth Bank** has held more than 800 meetings with women business owners. FCB's manages \$62 million in loans, deposits and cash-management activity for women-owned businesses, with the goal of \$100 million.
- The service **First Horizon** bankers provide their small- and middle-market business customers has consistently earned national recognition by Greenwich Associates in the areas of overall customer satisfaction, treasury-management satisfaction and relationship-management performance.
- **Genworth** supports thousands of small businesses, such as independent financial advisors, accountants, and insurance agencies. For example, Genworth offers practice management services to help advisors assess the effectiveness of their small business, determine ways to improve

## Section 3: Other Types of Small Business Support

efficiency and profitability, maximize firm value, and provide resources to assist in the purchase or sale of advisory firms.

- **PNC Bank** is the newest member of the Ohio Business Lending Clearinghouse network, which makes it easier for Ohio's small businesses to connect quickly with a lender, giving them an edge on growing their business and creating jobs for Ohioans. PNC joins other prominent lending institutions such as Fifth Third, Huntington Bank and Key Bank, in assisting Ohio small businesses with potential lending opportunities and business-development resources.
- In support of small business and entrepreneurial achievement, the **Principal Financial Group** sponsored the Inc. 500|5000 Conference. Nearly 2,000 of the nation's most successful small business CEOs and entrepreneurs met at the 30th annual Inc. 500|5000 Conference & Awards Ceremony September 22-24 at the Gaylord National hotel and conference center in Washington, D.C. This is the ninth year that The Principal has served as a major sponsor of this leading forum.
- **Raymond James** was involved in over 128 public financings in 2011 (33 IPO's) for small companies as well as private placements of both debt and equity for small companies. Raymond James also judges Ernst & Young's statewide and national Entrepreneurship Awards Program.
- **Visa** launched a micro-lending program with Kiva. Org. The average size of Kiva's filed partner loans in the U.S. is \$7,000.

## Educating and Building Relationships

- **Banco Popular** is participating in the New York City Bank Advisory Council, established to forge referral relationships and educational initiatives between banks and the New York City Small Business Services Agency.
- In September 2011, **HSBC Bank USA, N.A.**, launched its nationwide Business without Borders initiative to connect, educate and inspire U.S.-based businesses to take the necessary steps to expand and prosper in the global marketplace.

**Section 3: Other Types of Small Business Support**

- **Nationwide** and PartnerUp support small businesses by building a network to facilitate communications among small business owners.
  - **RBC Bank** presented a free educational seminar for small business owners.
  - **TD Bank** ran a small business campaign from Maine to Florida with door to door visits to small business owners.
  - **Webster Financial Corporation** hosted a small business event during National Small Business Week.
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