



Statement of
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on

SMALL BUSINESS AND ECONOMIC RECOVERY

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I am Terry Neese, a distinguished fellow at the National Center for Policy Analysis and “serial entrepreneur.” NCPA is a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control. We provide policy ideas that help women, families and small businesses remain an active, productive part of our economy, solving public policy problems by relying on the strength of the competitive, entrepreneurial private sector. I started my entrepreneurial career more than 30 years ago as a young woman with a dream. My personnel firm, Terry Neese Personnel Services, has found careers for more than 25,000 individuals and generated over \$2.7 billion in payroll. I faced many adversities in building my small business, including a devastating fire and highway construction, which closed access to my business for over two years.

Thank you for the opportunity to talk about the challenges and opportunities facing small businesses during these difficult economic times. We are the backbone of the economy. I say “we” because I have been a small business owner for 35 years. I’ve seen what it takes to make a successful small business.

According to the Small Business Administration, small businesses have generated between 60-80% of net new jobs annually over the last decade. Small businesses employ half of all private sector employees and create more than half of the non-farm private gross domestic product. Small businesses are responsible for jumpstarting the economic recovery from the 2001 recession, generating 100% of all new jobs during that economically-difficult time.

Yet Congress often overlooks the degree to which a free and growing economy relies on vibrant small businesses. Irrational tax policy, confusing workplace regulations, and “command-and-control” laws from Washington create a barrier for small businesses to prosper. I am grateful for forums like this to discuss these and other important issues that will allow small businesses to thrive. If they are freed from the burdens of over-taxation and over-regulation, small businesses can lead the way to economic recovery.

Everyone is feeling strained by the current economic situation. Unemployment, housing foreclosures, and uncertain prices have caused all of us to rethink how we behave. Many small business owners have found it difficult to make payroll, let alone to expand or grow. Nevertheless, despite the general anxiety, women business owners (in particular) remain an optimistic and important segment of our economy. Two recent studies show that women remain hopeful about the future:

- *The eWomen Network survey.* When asked how businesswomen are feeling about the current economic situation, 72.5% replied that they are “charging ahead and keeping a positive outlook.” When asked if they felt this was a good time to grow their business, an overwhelming 73.8% of women responded “yes.”
- *The National Association of Women Business Owners (NAWBO) survey.* While women entrepreneurs are facing the same economic difficulties as other businesses across the country, more than half say they have no plans to reduce employment and nearly 25% say they actually plan to add jobs this year.

Congress needs to encourage this type of optimism by enacting policies that allow small business owners to “charge ahead” and “grow their businesses.” Unfortunately the Administration’s proposed tax increases create burdens and barriers to small business growth and success. At the exact moment we want small businesses to invest in job creation, the President has proposed tax increases on small business owners.

According to the Tax Foundation, 1.3 million small business owners would pay more taxes under President Obama’s plan. These small businesses are not subject to the 35% corporate income tax rate. Instead, they report “flow-through” income from sole-proprietorships, partnerships, and S-corporations on individual tax returns. The total tax bill for small businesses as a result of these tax increases would be \$30.1 billion. The revenue from these higher taxes will be used, in part, to pay for the President’s \$634 billion health care reform reserve fund.

As I think about the President’s proposal to tax successful small businesses, I am reminded of a story about children who were catching grasshoppers and putting them in a glass jar. Grasshoppers are difficult to catch because they jump high, they move fast, and they find creative ways to escape from little hands. The children poked small holes in the lid of the jar to provide air, and periodically removed the lid to supply food, careful to quickly replace the lid to prevent the grasshoppers from jumping out. After many days spent in the jar, the grasshoppers were set free. Yet, even with their newfound freedom, the grasshoppers didn’t jump as high, nor did they move as fast, as before. They had been conditioned to confinement in a jar, so that even when they had been set free, they didn’t even try to jump. This same analogy applies to small businesses that, after years of confinement under burdensome tax and regulatory policies, become conditioned to their circumstances and don’t even try to be successful.

When I talk with small business owners from New York to California to Arizona to Florida about this proposed tax increase, they ask me why they should continue to build wealth if the government is just going to tax it away. They say that elected officials always talk about the importance of small businesses and the jobs they create for this country – yet, they continue to raise taxes on the very people who create the most jobs, thereby limiting their success.

If this small business tax increase becomes reality, many small business owners tell me that they will not be able to grow their businesses. Not only will they not be able to hire more people, in many instances they will be forced to lay off workers. They won’t be able to buy new equipment. They won’t be able to invest in their communities. In a sense, many successful small business owners are asking, “what’s the point of making more money when I just give it to the government?”

Over the last couple of weeks, there have been several stories that claim the President’s proposed tax increases would only affect 3% of small businesses. But this number confuses the true picture. It does not account for the 35% of small business owners that report small business income on their personal income tax returns. By allowing the 2001/2003 tax cuts to expire, the Obama Administration is raising taxes on 1.3 million small business owners who report business income as personal income, according to the Tax Foundation. About 25% of all taxpayers report some small business income, and 67% of individuals who make \$200,000 or more report small business income and would see higher taxes.

Even if it were true that only 3% of small businesses would be harmed by the President's proposed higher taxes, why would government policy single out this small fraction? Arguably, these small businesses are among the most successful in the country, creating jobs, hiring workers, developing new products, innovating, producing, and flourishing. These owners are among the most productive in the economy, so why would we put a lid on their success? In a free market, policies should encourage success, not stifle it.

Let me offer a few short-term solutions that can encourage success right away:

- *Make income tax cuts permanent.* Lower tax rates, especially at the margin, encourage work, investment and reduce tax avoidance.
- *Cut payroll taxes.* Taxes eat up one-third or more of a small business's income. Reducing the payroll tax will have an immediate impact on small businesses, enabling more investment to grow the business.
- *Health insurance portability.* The cost of health insurance, as well as the associated government regulations, are a significant burden to small businesses (this topic deserves a separate forum all its own). Instead of expanding COBRA payments for the unemployed, Congress should empower people to carry their health insurance from job to job (even while they're unemployed) and allow small businesses to cross state lines to purchase a health care plan that works for their employees. The average unemployment benefit of \$1,200 is hardly adequate to cover the average COBRA health insurance payment of \$1,069. And COBRA benefits are largely temporary. Individually-owned, portable health insurance would follow workers when they change jobs, even if they are unemployed for a time in between.

More government spending will not solve these economic problems. Too many mandates and regulations, irrational tax policy, too much government spending, and inconsistent economic policies cause too many loopholes and create unintended incentives. What we need now is to resist the urge for higher taxes, more regulation, and command-and-control policies. Instead, Congress should promote personal, portable, flexible, fair, and voluntary economic policies that empower people to be as economically productive as possible. The entrepreneurial spirit is what built our uniquely American economy. It is what differentiates us from other economies around the world. If we put a lid on our entrepreneurs, we not only risk our country's short-term economic growth, but also stifle our long-term economic security. At a time when we should be encouraging capital investments to kick start our economy, we can't afford tax increases that will hurt those businesses that will lead us out of this recession.