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Small business owners are feeling very optimistic right now but could House Democrats change all that?

By: Alfredo Ortiz

While financial commentators wring their hands over the economic future, with some warning of an upcoming recession, small businesses are booming.

According to the latest data from Gallup, U.S. small business owners are more optimistic about business conditions now than at any point in recorded history. In its latest quarterly survey, a record 80 percent of small business owners say their company's financial situation is good.

Perhaps nothing demonstrates the strength of the small business economy better than new business formation, which indicates whether entrepreneurs believe they can succeed in the current market. Since President Trump was elected, small business creation has surged, with new business applications increasing by 16 percent — nearly twice as fast as the two year period prior to his election. According to a recent Job Creators Network/ScottRasmussen.com Weekly Pulse poll, millions more Americans plan to start their own business this year.

Small businesses account for two-thirds of new job creation, so the booming labor market is also a reflection of their strength. Last month, 312,000 jobs were created, significantly outpacing economists' expectations. Since Trump's election, more than five million net new jobs have been created, driving the unemployment rate down near a half-century low. The labor market gains have been widespread, with unemployment rates for black, Hispanic, and female jobseekers reaching record lows.

The labor market has been so strong that it has drawn millions of people back into the workforce. The prime age labor force participation rate has increased to 82.1 percent, roughly equal to its pre-recession level. In fact, the small business job creation engine is so strong that there are now 6.9 million unfilled jobs in the country, surpassing the number of people unemployed last year for the first time in history.

This small business vibrancy drives economic growth and raises living standards. In the two most recent quarters where data is available, economic growth rose by 3.4 and 4.2 percent. Overlooking the economic power of small businesses, leading economists ridiculed Trump's election promise to achieve such a robust economic expansion.

What is responsible for this booming small business economy? The main driver is good government policy that gets out of the way of small business owners creating value and jobs. Exhibit A is the tax reform that took place last year. It contained numerous provisions that helped small businesses, including immediate capital expensing and a new 20 percent small business tax deduction that allows small business owners to protect one-fifth of their earnings, which can be reinvested in expansion, hiring, and wage increases. Most small businesses describe this new tax cut as a "game changer," according to a survey conducted by Bank of America.

Deregulation has also given small business owners the certainty they require to invest in long term projects. Legislation that rolled back the worst aspect of Dodd-Frank, which was strangling the community banks upon which small businesses rely, has also made it easier for small business owners to access credit.

While small businesses are still booming, there are storm clouds on the horizon. House Democrats have proposed a slew of anti-business regulations including dramatic tax hikes, job-killing regulations, and a \$15 minimum wage. Even if Senate Republicans succeed in blocking these bad policies, they still create business uncertainty which reduces optimism, expansion, and hiring.

The Federal Reserve also poses a threat to this small business expansion because it is raising interest rates too quickly, making credit, expansion, and entrepreneurship more costly. This month, former Federal Reserve Chair Ben Bernanke said, "Expansions don't die of old age, they get murdered [by Federal Reserve policy]." We hope the current Fed Chair gets this message.

Yet absent bad fiscal, monetary, or regulatory policy, small businesses will continue to power our economy, labor market, and living standards to new heights. Just don't expect that to change the minds of professional financial and economic doomsayers.

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