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Small businesses mildly hopeful on Obama jobs plan

CHRISTOPHER S. RUGABER | September 9, 2011 04:44 PM EST | 

WASHINGTON — Small businesses, the focus of President Barack Obama's job-creation plan, say they wouldn't suddenly boost hiring if his proposed tax cuts took effect. But they say his sweeteners could spur companies that were considering hiring to take the plunge – if their sales picked up.

The White House wants to cut Social Security taxes in half next year for the first \$5 million of a company's payroll. Obama's plan would also eliminate the 6.2 percent Social Security tax on any increase in a company's payroll, whether from hires or pay raises, up to \$50 million.

All companies would benefit. But the caps ensure that small businesses would benefit the most.

"That kind of thing...would definitely be an incentive for us to pull the trigger," said Tom Schumann, general manager at E.C. Kitzel & Sons Inc., a small manufacturer in Cleveland.

The company is hiring now. But that's because its machine tools business is picking up.

"You're not going to hire someone unless you have a need for that person," Schumann said.

Other business owners say they would expect to benefit more from other White House policies, like Obama's efforts to win passage of several free-trade deals.

Small businesses are normally the leading drivers of job growth. They created 65 percent of net private-sector jobs in the past decade, according to the Small Business Administration.

Newer businesses are even more crucial. Companies less than 5 years old accounted for all the net job gains from 1980 to 2005, according to the Kauffman Foundation, which studies entrepreneurship.

But small businesses have been slower than larger companies to recover since the recession officially ended in June 2009. Surveys show they're still struggling with poor sales. By contrast, larger corporations have been exporting more, earning more revenue overseas and stockpiling cash.

All that helps explain why job creation has been so sluggish for the past two years. The unemployment rate has been stuck near or above 9 percent for 29 months, the longest stretch since World War II.

Consumers are saving more and paring debt. That's meant fewer customers for corner retail stores, small manufacturers and local contractors.

In many cases, a tax cut wouldn't be enough to make up for all that.

"We're going to hire based on consumer demand, and until demand picks up, I'm not going to be hiring based on a tax credit," said David Hauck, co-owner of Tadpole, a toy store in Boston.

Robert Litan, a vice president at the Kauffman Foundation, said the tax cuts would likely lead some small businesses that were hesitant about hiring to add jobs. But most will want to see sales improve first.

"If consumers are still in a funk and aren't buying anything, I don't think the tax cuts are going to make a difference," Litan said.

On the other hand, if spending improves, "this additional tax cut could tip them over the fence to hire a worker."

Some small business owners said the tax cuts would at least give them an extra margin of safety in tough economic times.

"This kind of thing gives us a little cushion," said Drew Greenblatt, president of [Marlin Steel Wire Products in Baltimore](#). "And we need cushion."

But Greenblatt says he's impatient for the president to follow through on other administration priorities. These include congressional approval for free-trade agreements with South Korea, Colombia and Panama. Greenblatt's company employs 34 people who manufacture steel products and exports them to 35 countries.

[His products face a tariff in South Korea](#), while his German competitors don't. That's because his European rivals benefit from a free-trade agreement between the EU and South Korea.

The Obama plan is "a step in the right direction," Greenblatt said. "For people teetering between whether or not they'll hire someone or lay off someone, this may make the difference."

Wes Smith, president of E&E Manufacturing, said his company would benefit more from the part of Obama's plan that would renew tax breaks for companies that buy long-lasting equipment. Like many small businesses, E&E sells to larger companies – automakers and other users of its stamped metal products.

The investment tax break "gives my customers a reason to invest their precious capital here in the United States," Smith said.

One group who may not receive much benefit from Obama's plan is the long-term unemployed – defined as those out of work for at least six months. The government says 43 percent of unemployed Americans are in this category. Obama's plan offers a \$4,000 tax credit for companies that hire these workers.

But many small business owners said they didn't think this credit would affect their hiring plans.

Ken Wisnefski, CEO of WebiMax, a fast-growing online advertising firm, said many of the long-term unemployed tend to apply for senior-level, high-paying positions for which they're no longer qualified.

"The skill set they have is a little outdated for the world today," he said.

Obama has also proposed increasing the cut in Social Security taxes paid by workers, which would put more money in the pockets of many families.

The Social Security tax is imposed on the first \$106,800 of taxable income. Under Obama's bigger tax cut, an extra \$1,550 would go to taxpayers earning \$50,000 a year. The maximum savings would be about \$3,300 for an individual and \$6,600 for a couple.

More take-home pay for workers could, in theory, boost consumer spending enough to spur some hiring.

"We need to get consumers and businesses spending money," Schumann said. "The jobs will follow."

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AP Business Writers Anne D'Innocenzio in New York and Rachel Metz in San Francisco contributed to this report.

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