How Businesses Hire *(Santa Barbara News-Press)*

(March 27, 2011) The first quarter of 2011 is wrapping up and the job figures continue to disappoint. The Bureau of Labor Statistics reported the U.S. added a barely noticeable 36,000 new jobs in January, and an improved 192,000 new jobs in February. March figures will be out in early April. Even with the 103,000 hired in December, that's a three-month total of only 331,000 jobs added. But as each subsequent month of new employment data is released, one rubric remains the defining template to gauge the impact – and credibility – of any job creation, both here on the central coast and nationwide. The U.S. economy needs *36 consecutive months* of 300,000 new jobs added *per month* to fully replenish the 11 million jobs lost to the recession, and bring the national unemployment rate back to the 5% range of the Bush era. That means December was only a third of that target, while January was just one-tenth, and February was only about two-thirds of what is needed each month to fully recover.

In the last two weeks I have talked with several CEOs here on the central coast about their prospects for adding new jobs in 2011. The general consensus was that Washington DC's and California's burdensome taxes, government over-regulation, and huge questions about federally-mandated healthcare together have negatively impacted profit projections for not only the remainder of 2011, but also for 2012, and even three-to-five years out (2014, 2015). They also completely agreed that the decision to invest capital is based on market opportunities and strong profit potential as a return on that investment. Right now, there is still too much uncertainty and this puts expansion plans on hold until future expectations improve.

In the wider national markets, I and my co-author have recently been speaking at economic conferences and venture forums in places like Florida, Chicago, New York City, Portland, Texas, St. Louis, Silicon Valley, and LA on job creation – and the two most common questions from the audiences have been, "When will U.S. firms start significant hiring again?" and "How can the federal government get firms to hire more workers?" Our responses are always the same. The decision to hire new employees is inherently a business decision. It is *not* a function of government. Owners, entrepreneurs, and senior management add personnel to the payroll when there is more work to get done than the existing labor configuration can handle. This extra work is a direct function of expansion plans, sales growth, and improved profitability based on great opportunities in the free market. Strong certainty about lower taxes, reduced regulatory burdens, cuts in government spending, and smaller deficits (less added to national debt) supports positive expectations about business performance, and that's the reason owners and senior managers decide to invest in the firm and add more workers. These new positions are tax-producing jobs that generate new sustainable public revenues.

Government does not create new jobs. Adding workers to city, county, state, and federal payrolls is simply increasing taxpayer-funded bureaucracy. These are tax-consuming that do not build value or create new wealth in the private sector. And, they are very often not sustainable, because when the tax revenues that fund them are reduced or eliminated, these jobs cease as well. While government may try to manipulate industries and markets with artificial and temporary programs such as tax credits, tax subsidies, and tax haven and hiatus programs, those actions often do not provide sufficient incentives for firms to add permanent new jobs to their business models. Leo

Hindery of InterMedia Partners, LP recently noted, “I have never hired based on a tax credit; employers hire when they are certain they will have a growing market for their products, and they don’t have that certainty now.” That’s exactly how businesses hire. The underlying rationale for the added personnel is that sales are expected to increase, overall costs will decrease, and the firm’s profits will be higher.

The new positions will either be hourly wages that add to the total variable costs of company output, or salaries that add to the fixed overhead expenses. But in each case, the additional personnel will bring economies of scale to the overall output of the firm, as productivity improves at a higher rate than the increases to the payroll. For example, in the case of manufacturing jobs, ten workers might do 500 units per week, so that productivity is 50 units of output per employee. Then, adding 3 new workers will open up more efficient ways to share work processes, complement efforts, and accomplish tasks, so that total output for 13 total workers will improve to 715 per week – a 10% increase in productivity to 55 units per employee. Higher sales, better productivity, and lower costs of doing business all contribute to a stronger profit picture for the firm. That’s when hiring new employees makes sense. No special program from government is needed. The business has clearly positive opportunities, pursues those in the market, and hires more employees to get all this extra work done. That’s job creation, pure and simple.

So the first common question applies to the Central Coast as well. Local businesses will start significant hiring when strong certainty about companies’ future performance compels owners and senior managers to invest capital into sales, marketing, operations, R+D, and improved infrastructure – all aimed at higher revenues and stronger profits. But CEOs were very clear in their comments to me, that the answer to the second question must be closely qualified. Government does not so much "get" businesses to hire more workers, as much as government needs to "get out of the way" of the American private enterprise and allow businesses to flourish in an external market environment of lower taxes, less regulatory burdens, and dramatically reduced government spending. If politicians would in fact help to reduce the uncertainty of government intrusion into the private sector, they would be pleasantly surprised to find the kind of job creation that would add hundreds of thousands of new jobs for 3-4 years to come, and with that, overall tax revenues coming in to government coffers would no doubt be significantly more than is happening now in this weak economy. That's how job creation really works! Hopefully this simple message of the private sector will have a positive impact on governments at every level.