

THE BUSINESS PERSPECTIVE

Uncertainty looms larger than taxes

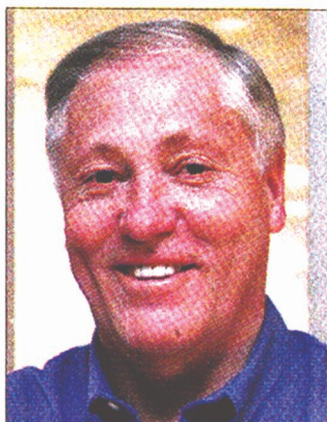
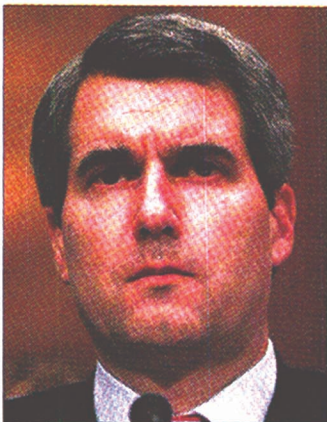
BY NEIL IRWIN

CHICAGO — Business leaders are growing exasperated with Washington. And they say the dysfunction in the political system is holding them back from hiring and investing.

A new sort of risk to growth is emerging, not from the kind of economic forces that led to the recent recession but from elected officials' inability to agree on how to deal with them. This angst in the executive suite is reflected in this month's uptick in lobbying by business groups eager to see a deal on the federal debt ceiling, in surveys showing falling confi-

dence among business leaders — and, in the American heartland, by the deepening frustrations of corporate chiefs.

In interviews in this great industrial capital, senior executives in the area said they lack confidence that political leaders can execute the basic nuts and bolts of governing, as exemplified by the brinkmanship over raising the debt ceiling. Indeed, the frustration over the political climate and Washington's seeming inability to solve problems appears to weigh more heavily in their minds than any specific government policy.



Clockwise from top left are Kevin Kelly, chief executive of Heidrick & Struggles, an executive-search firm; Shelly Sun, chief executive of BrightStar Care, a staffing service for home health-care workers; Lyle Heidemann, chief executive the True Value hardware chain; and Roger Hochschild, president of Discover Financial Services.

The executives are hostile to President Obama and his agenda and say higher taxes would damage their business prospects and make them less inclined to invest and hire. But in contrast to congressional Republicans' claims that any tax increases would stop job creation in its tracks, many executives say they could tolerate somewhat higher taxes if they were part of a broader plan that offered clarity on the nation's future policies, particularly one heavy on spending cuts.

"What are the rules of the game going to be in the long term?" said Lyle Heidemann, chief executive of the 5,000-store hardware chain True Value. "What our retailers would like to have is consistency and predictability. We can handle decisions we don't agree with, but that's easier than not knowing what the decision is going to be."

For example, he said, several True Value franchisees have sold their stores in the past year — even though they would have preferred to hold on to them for a few more years — because they feared that the 15 percent capital gains tax will rise at the end of the year, when it is scheduled to expire.

The loss of confidence in Washington seems to be a driver of a more fundamental lowering of expectations in the nation's executive suites. The Conference Board, a business research group, found in its most recent survey of chief executives that 43 percent expected economic improvement in the next six months, down from 66 percent at the beginning of the year.

The groups that represent businesses in Washington, including the U.S. Chamber of Commerce and the Business Roundtable, have been urging Congress to raise the debt ceiling to avoid the risk of a default or downgrade of the U.S. credit rating, even as many newly elected Republican members of the House — who received support from business interests when running — are reluctant to vote for such a measure. A group of major business groups sent a letter to the president and every member of Congress two weeks ago, imploring them to raise the debt ceiling.

The tenor of the debates in Washington has damaged the executives' sense, long taken for granted, that the taxes and regulatory policies they face will be predictable and reasonably constant. The executives are horrified that the nation might be on the verge of losing its AAA credit rating, and they have a deep hunger for a grand bargain: a master plan to determine the nation's fiscal future over the coming dec-

ade.

There is no telling what the tax code will look like next year or who will ultimately bear the burden of reducing the nation's budget deficits. That makes it an ominous time to consider even buying a new piece of equipment or hiring another worker, businesspeople said.

"Clarity is everything, even if it's negative clarity," said Rick Bastian, chief executive of Blackhawk Bank, which has eight branches in northern Illinois and southern Wisconsin. The mid-size manufacturers to whom the bank lends money have made it through the worst of the recession, Bastian said. But now they are resistant to upgrading equipment or expanding production capacity because they don't know what the tax burden will be on their revenue.

"Let's say you make an investment that will return \$100,000," Bastian said. "I don't know if I'll be paying \$10,000 more in taxes or \$15,000 more. That could be the difference between whether you can afford to service a loan to pay for it or not. I'm not going to make a long-term investment that requires me to commit cash flow for years if I don't know what taxes are going to be."

There has been plenty of political bickering in the nation's history, and the current situation bears some resemblance to the standoffs between President Bill Clinton and the Republican Congress that shut down the government in 1995 and 1996.

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But executives describe a very different environment this time around. The economy was in generally strong shape in the mid-1990s, and business confidence — then high — was little phased by the showdown in Washington. Now, with a 9 percent unemployment rate and an exceptionally weak two-year-old recovery, confidence is far more fragile.

"We're still coming out of a deep crisis and recession," said Kevin Kelly, chief executive of

Uncertainty keeping CEOs' hands tied

Heidrick & Struggles, a leading executive-search firm, who said his conversations with executives in recent weeks have frequently featured fretting over the debt-ceiling talks. "There have been fits and starts toward stronger growth, and now the outlook hinges on what happens in Washington."

At Quality Float Works, a company in Schaumburg, Ill., that makes metal float balls for industrial use, the debt impasse has General Manager Jason Speer nervous that it could cause interest rates to spike and make the line of credit the firm uses to finance its inventory more expensive to manage.

As a result, even with business up 30 percent this year and more long-term orders coming in, "we're kind of holding back on hiring and major purchases," Speer said. "We're waiting and seeing what effect all this will have on our credit and on our ability to do business overseas."

Many executives describe the uncertainty around taxes and spending as only one in a series of confidence-sapping challenges coming from Washington.

For example, BrightStar Care provides staffing services for home health-care workers through 225 franchisees worldwide with a combined 6,000 employees. Shelly Sun, the company's founder and chief executive, said that as she works with potential franchisees, many are held back by uncertainty over whether they will have to pay for their workers' health-care costs once

last year's health-reform legislation is fully enacted, and if so, what it will cost.

"This is a very price-competitive business," Sun said. "Consumers are already having difficulty scraping together funds to pay for services, and if the franchisees have to bear an extra dollar, \$1.25, or \$1.50 per hour for health-care costs, what could be a viable business may not be."

And at Discover Financial Services, a large credit card and transaction-processing firm with 11,000 employees, President Roger Hochschild has had to grapple with great uncertainty about how the financial system will evolve under changing regulations.

"It's really challenging to enter the mortgage business with no clear understanding of what Fannie Mae and Freddie Mac will look like down the road," Hochschild said.

But for many executives, the uncertainty about how the United States will lower its budget deficit over time and who will pay for it looms most heavily over their decisions.

"Among the other presidents and CEOs I interact with, the only consensus of opinion is none of us has any idea where things are going," said Scott Morey, chief executive of Morey Corp., a 700-employee company in Woodridge, Ill., that makes electronic equipment. "And in my observation, the uncertainty we are experiencing is caused almost entirely out of Washington and other governments around the world."

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