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Business

Showdown on the economy

Could a change in presidents lift the nation's economic mood? Absolutely, some executives say. But others fear a change for the worse.

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For two decades, Republican presidential candidates have been the overwhelming favorites of the people who own and run American business.

This election year, however, George Bush has struggled to hold onto that influential bloc of voters.

Blame the sour economy. It's been rough on companies of all sizes. But also credit President Bush's opponents. Both Democrat Bill Clinton and independent Ross Perot have run hard to win away the votes of business owners and managers.

They could have done better if they were in charge of the economy, Bush's challengers claim.

Could they?

"I think the president has a lot less to do with the economy than the public . . . thinks he does," says David Wyss, chief financial economist for DRI-McGraw Hill Inc., a Lexington, Mass.-based business-research firm. "The president can't turn the economy around on a dime."

In the view of Wyss and many other economists and businesspeople, the country was due for a recession during Bush's term. After long periods of growth, like the seven straight years under Ronald Reagan, contractions are normal. And indeed, though it's happening ever so slowly and in fits and starts, the economy is expanding once again. The president hailed "as very good news" the 2.7 percent third-quarter gain in the Gross Domestic Product reported by the Commerce Department last week.

Yet, bashing Bush over the economy remains ever popular — and not just among everyday working folks, but in the most privileged business circles, too.

It's not what the president has done, says Thomas Lyons, president of a Virginia Beach-based lodging company. It's what he hasn't done. And what Bush still hasn't done, Lyons says, is inspire any confidence in the American people that things will get back to normal.

That's slowed the pace of recovery, Lyons believes.

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"We're faced with a crisis of fear in this country right now," he says. "The underlying economic fundamentals are not as bad as you would see from the media. The psychological fundamentals, though, are probably the worst I've seen in my 30 years in business."

Lyons enthusiastically voted for Bush in 1988. But just two days before Election Day, he's considering punching the ballot for Perot.

"If I'm carrying a clothespin for my nose, you'll know I'm voting for Bush," he says. The president "has failed to exhibit the leadership necessary in this period."

Other business leaders say Bush's failure, however, is much more than an inability to inspire confidence.

Stuart C. Siegel, chairman and chief executive of Richmond-based S&K Famous Brands Inc., believes the economy isn't suffering just another short-term illness. It's sick to the core, he says, and the president refuses to deal with it.

"I personally have lost all confidence in his ability to solve the problems in our cities, with the poor and with the unemployed," says Siegel, who voted for Bush in 1988 but plans to go with Clinton this time.

As head of a retailing company, Siegel closely follows consumer-confidence polls. Consumer confidence was at its lowest point in eight months, The Conference Board reported last week.

"I think if he's re-elected," Siegel says, "they're going to dip even more."

But in spite of nay-sayers like Siegel, John J. Motley, vice president of the National Federation of Independent Business, predicts most business owners and managers will stick with Bush on Tuesday — even if the people they boss don't.

"Are they mad? Yes, definitely," Motley says. "They are mad at the president because they feel he didn't focus early enough on economic problems ... but I sense that they're scared to death of Clinton, that we'd be faced with an administration and a Congress with a more activist agenda."

For the most part, businesspeople don't trust Perot, either, Motley says, even though many of them like his tough-talking rhetoric and style.

E. Keith Alessi is one of those businesspeople who remains pro-Bush. He's president of Virginia Supermarkets Inc., a Norfolk-based grocery chain.

Alessi says Clinton and Perot are off base when they charge that the United States is falling behind the rest of the world economically. "I think that is the biggest myth being thrown around today."

Sure, other countries are catching up, he says. "But what base are you looking at?" In some nations he says, "if you get a loaf of bread you've doubled your lifestyle. . . . How are we going to keep improving the standard of living here? Give everybody an airplane?"

Alessi adds: "There is as much an opportunity for somebody today as ever, if he's willing to get off his butt and work."

The only thing he says he can fault Bush on, when it comes to the economy, was allowing Congress to convince him to break his "no new taxes" pledge. "I only blame him," he says, "for being naive enough to think he could compromise with those people."

Despite their differences on whether the economy's suffering from a short-term illness or a terminal decline, hotelier Lyons and retailers Siegel and Alessi do have one thing in common. From a strictly personal standpoint, each considers himself better off now than before Bush became president.

During that period, both Lyons and Siegel expanded their companies and Alessi went from an executive position at Norfolk-based Farm Fresh Inc. to owner of his own grocery chain.

In fact, Motley says his Washington, D.C.-based independent-business group has found in surveys that many, if not most, of its small-business members are in better shape than four years ago. They've been forced by the sickly economy to reduce debt, cut costs and focus their business strategies.

Unfortunately, they reduced employment, too, he says, but they're likely to start hiring anew when and if the economy gets cranking again.

Large companies suffered more during the downturn and still generally are reducing employment, he says, because they had more overhead and a greater debt load to work down.

But even many big companies are in a better position to prosper now that interest rates have fallen so dramatically, says John Lonski, senior economist for Moody's Investors Service Inc., a New York-based debt-rating company. Falling rates have allowed a lot of corporate debt to be refinanced at lower costs.

"That will be a very important business tool . . . in the '90s," he says.

Lonski believes that only to the extent that Bush influenced policy as Reagan's vice president does he deserve the rap for the current sluggish economy.

The seeds of the recent woes were sowed during Reagan's two terms, he says, with tax and regulatory policies that encouraged a runaway commercial-building boom and corporate merger spree.

When the pendulum swung back, banks and savings and loans that financed the debt explosion went down by the hundreds. Meanwhile, Reagan and the Congress piled even more onto the nation's debt pile with ever-expanding budget deficits.

"Through the medium of debt . . . we advanced economic activity into the '80s at the expense of the '90s," Lonski says. "Whether Bush realized it or not, when he took over as president, it was as if he was a manager taking over a baseball team with overpaid, overweight stars. It's bound to go downhill."

And downhill it went.

Corporate profits, factory operating rates, productivity and business startup rates all plunged under Bush's watch. Construction activity is still way off. Retail sales growth slowed to a near halt. Business bankruptcies are up. And costs to employers for health care have grown triple the rate of inflation.

There's been some good news. Lower interest rates, of course. A narrowing trade deficit. Stable energy costs.

And Bush has done some things that will have a positive bearing years from now, says Campbell Harvey, a Duke University business professor.

His role in helping bring an end to the Cold War will pay huge dividends to businesses in the long run, Harvey says, even though the defense cutbacks it's made possible are causing a lot of pain in areas like Hampton Roads.

The Bush administration's negotiating of the North American Free Trade Agreement with Canada and Mexico will help restore the U.S. as "the world leader in competitiveness," he adds.

But many businesspeople remain unsure.

Business spending on new equipment and for research, as well as government investment in infrastructure, is running way below normal levels.

That makes it harder for American workers to become more productive. And without big productivity gains, economists say, America's share of world merchandise markets and the relative wealth of its people will continue to slide.

So, like S&K's Siegel, an increasing number of business leaders say it's time for a president who's willing to jump in and try jump-starting the economy — even if it means more taxes and more government spending to start with.

"With the election of Bill Clinton," Siegel says, "it's certain we're going to have change. . . . With George Bush, you know what you have.

"But I don't think the country has a lot of confidence in George Bush any longer."