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.

By Dave Mayfield  
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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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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 tripling 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."