COMMENT & ANALYSIS: Time for Bush to get tough on business

By Jeffrey Garten
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With GeorgeW. Bush's new appointments - John Snow as Treasury secretary, Stephen Friedman as National Economic Council adviser and William Donaldson as chairman of the Securities and Exchange Commission - and with the recent Republican electoral victories in Congress, American chief executives can be forgiven for believing that Washington is poised to pursue the most pro-business agenda in years. However, the real interests of the business community may differ from what chief executives imagine.

For example, many executives would say that the recent laws to combat corporate and accounting transgressions are too severe and would welcome a Republican-led slowdown in regulation. But this would be short-sighted for business itself. It is in corporate America's interests that the 80m Americans who have relied on the stock market for their retirement and their children's education believe that corporate governance is on a much stronger foundation. Otherwise, the pervading lack of faith in America's market-based system could lead to years of under-investment. This would not only jeopardise national welfare but would also undercut corporate health.

Consider tax policy. Many business leaders are behind Mr Bush's putting his recent $1,300bn (£833bn) tax cut, which expires in 2010, on a permanent basis. There may well be a strong case for lowering taxes in 2003 to stimulate the sagging economy. However, cutting them in perpetuity is another matter, for the recently projected $5,000bn US budget surplus for the decade has now turned into a stream of annual deficits of at least $150bn for years to come.

Business leaders would do well to recall that less than 10 years ago, such budget shortfalls not only set back the national economy but also damaged American companies. This happened because the government was forced to borrow huge sums to cover fiscal deficits, thereby competing with private enterprise to obtain funds in the market. The combined pressure of public and private borrowing drove up interest rates and inhibited business expansion. High rates also pushed up the value of the dollar, raising the prices of US exports and making it easier for European and Japanese companies to take markets away from US companies.

Chief executives seem pleased that a Republican-sponsored drug prescription plan for elderly Americans, one also favoured by the pharmaceuticals industry, is within political reach. While any plan is better than none, it would not be in the interests of US companies if this narrow initiative were used as an excuse for doing nothing else to reform the healthcare system. After all, the cost of medical attention is increasing by about around 15 per cent a year and 40m Americans are without health insurance coverage.

Fixing the health system is in the interests of American society as a whole - but, for companies in particular, the short-term danger is clear. Rising company contributions to employee premiums are eating into corporate profits. In addition, employees have either to pay much more for medical benefits or forgo important treatment altogether. They are thus likely to be sick more often and worry more about their health. As a result, they are sure to be less productive.

Chief executives seem tacitly to support the administration's international policies, partly because they assume that the Republicans are strong supporters of free trade. But they should take another look. Republicans did not hesitate to erect extensive barriers to steel imports or to raise farm subsidies sky high. Moreover, it appears that the administration has never met a treaty it likes, having walked away from those relating to protection of the environment, control of nuclear and biological weapons and pursuit of international criminals, among others.

Such strident unilateralism is not in business's interests: chief executives of American multinationals need more rather than fewer global accords, to include those on trade, banking regulation, securities trading, accounting rules, protection of intellectual property rights and harmonisation of antitrust policies. Indeed, without more such agreements, the successful globalisation of US companies, now so heavily dependent on foreign markets for revenues, will be dramatically curtailed.

Currently, chief executives are not accustomed to looking far ahead. In the 1980s and 1990s, business leaders were preoccupied with pumping up the value of their companies' share prices in the short term, often by financial manipulation, ill-conceived mergers or sheer rhetorical hype. This behaviour may have ended for now. But chief executives are still intensely focused on meeting quarterly earnings targets. This tendency has been reinforced by remuneration based heavily on stock options that can be cashed in soon after being awarded, not to mention the shortening tenure of chief executives - which has now reached three to four years on average.

It would be an important turn of events if the administration and business leaders took a longer and broader view of the policies that would stimulate economic growth, strengthen our free market system and help American companies. But it seems that this is not what the Bush administration and Congress will be pushing, or what chief executives will be supporting. For that, businesses and the public will both be losers.

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