Bing

Money

Make msn.com your home page

Company Focus 9/21/2010 7:17 PM ET

Why CEOs can't stand Obama

Corporate leaders are slamming the president over taxes and the uncertain effects of his policies, and the executives' siege mentality is holding back the economy.

[Related content: Barack Obama, Intel, Michael Brush, politics, stocks]

By Michael Brush
MSN Money

Is fear of President Barack Obama one reason we're stuck with sluggish economic growth?

That's the message the CEOs of several major companies are sending out.

In unusually vitriolic attacks on a sitting president, including references to communist Russia and Adolf Hitler, CEOs have complained they can't predict what Obama will do next -- and how his new regulations and taxes might hit their companies.

bing
Which party is better for the economy?

The result is a bunker mentality that has CEOs holding back -- and the economy growing more slowly as a result.

"We don't know what the latest great idea from Obama will be. Therefore, we are hunkering down," **Cypress Semiconductor** (CY, news, msgs) CEO T.J. Rodgers told me last week, echoing public comments over summer from CEOs at companies such as **Intel** (INTC, news, msgs) and **Verizon** (VZ, news, msgs).

He said that because of Obama, CEOs are focusing on their core businesses and hiring less, to control costs and risks. "CEOs are uncertain, so they don't want to have the liability of adding a lot of employees," Rodgers said.

There's certainly a lot of uncertainty out there as we approach November's midterm elections. Next year's tax rules are in limbo. The effects of health care and financial reform have yet to be seen. And then there's what many perceive as an anti-CEO message in Obama's rhetoric -- aimed mostly at chiefs of big banks and health insurers but also at hunkered-down execs in general.

"Obama uses political rhetoric to demean me and my motives, but the fact is, I am completely happy with my motives and the morality of my decisions," Rodgers said. "My moral responsibility is to protect and grow the investment of shareholders."

Why CEOs have soured on Obama

Go to Wall Street Journal

Are conditions really that bad?

The irony is that, by many measures, public companies are doing quite well in the Obama economy. The **S&P 500 Index** ($INX) is up about 35% since Inauguration Day. Profits are expected to rise 36% in 2010, Bloomberg reports. And companies are sitting on a near-record $2 trillion in cash, money they could use to invest and create jobs.

Of course, those profits and that treasure are to a great degree the result of hunkering down and cutting costs.

- Find an online broker and start trading

Obama defenders say his criticism of big bank and insurance CEOs have been justified, given the financial meltdown and the number of Americans without health coverage. And, of course, no president can afford to be anti-business.

"Using Obama's priorities for fixing the economy as an excuse is deplorable," said Brandon Rees, the deputy director of the AFL-CIO Office of Investment. "These CEOs would be better off focusing on their businesses."

In fact, many CEOs, including Brian Roberts of **Comcast** (CMCSA, news, msgs) and Mike Duke of **Wal-Mart Stores** (WMT, news, msgs), have supported Obama's reforms, and Warren Buffett opined recently that the economy is back on track.

It's hardly rare for CEOs to speak out against Washington when it's doing something they don't like. What's different now is the vitriol and directness of these corner-office broadsides.

CEOs on the offensive

Consider the following attacks on Obama and the Democrats in recent months:

- Intel CEO Paul Otellini, referring to Obama and the Democrats, said in an August speech to the Technology Policy Institute's Aspen Forum, "I think this group does not understand what it takes to create jobs."
- Verizon CEO Ivan Seidenberg, in a June speech at the Economic Club of Washington, accused Obama of creating an "increasingly hostile environment for investment and job creation."
- Cypress Semiconductor's Rodgers told me last week that he had "started out happy with Obama because we had broken through the white male barrier" and made "a step forward for equality." But Rodgers added: "I have become deeply disappointed with him. It is amateur hour in Washington. The guy hasn't got a clue about the economy, how jobs are created, how wealth is created. It reminds me of the Jimmy Carter years, only worse."
- Blackstone Group CEO Steven Schwarzman seemed to compare the Obama administration to Hitler by saying in a recent private meeting that Washington's push to increase taxes on private-equity firms is war, "like when Hitler invaded Poland in 1939," according to Newsweek.

Observers say such overt attacks are rare. "I don't remember corporate leaders speaking out this vehemently in the past, said Gary Shilling of A. Gary Shilling & Co., which offers investment advice. "People in these positions don't get there unless they know how to keep their mouths shut when they need to."

Shilling speculated that CEOs need a scapegoat for the poor economy and that the administration "has mishandled things to the point where it has volunteered itself" for the job.

"Much more than any time that I have seen in my career, business is concerned about specific policies and ideas coming out of Washington," said Fred Fraenkel, the chairman of the investment policy committee at Beacon Trust and former director of global research at Lehman Brothers.

Daniel Mitchell, a senior fellow at the Cato Institute, a think tank dedicated to limited government, suggested CEOs are also letting loose because they feel "a little bit liberated" by polls suggesting Republicans may take a majority in the House of Representatives and make significant gains in the Senate in the November elections.

Continued: Stifling uncertainty

Stifling uncertainty

The harshest comments aside, the CEOs do seem right about at least two things: There's lots of uncertainty in the air, and it is holding back business.
"Businesses can't invest until they have fewer variables. And right now there are just too many variables," Intel's Otellini said in an interview with CNN last week.

The questions are centered in two areas:

- Taxes for next year and beyond. The Bush-era tax cuts expire at the year's end unless Washington acts, with many ramifications for Americans of all incomes. Republicans want to extend them all; Obama would let them expire for the highest-income earners; and Democrats in Congress are (typically) divided. Longer term, the concern is that growing deficits will force tax hikes eventually anyway.
- The impact of Obama reforms. The effects of sweeping health care and financial reforms remain far from clear, and more reforms could be on the way. "What gets lost in translation is that this is not the end of the process," said Bruce Josten, the vice president for government affairs at the U.S. Chamber of Commerce. He said recent financial sector and health care reform will require hundreds of new regulations that could take as much as 12 years to implement. "This level of uncertainty becomes a prescription for delaying the next decision about your company," he said.

The effect on growth

All of this is having a direct economic impact, Shilling said. He's looked at past recoveries to get a sense of how much capital spending should be going on right now, given the levels of key variables. Those variables include things such as spare production capacity in the system, the direction and change in spare capacity, how much profits are rising and interest rates.
Shilling estimated that recent capital spending is about 10% below where it should be at this stage of a recovery.

In the upcoming book "The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation," he compares the current climate to the impact that New Deal activism had on business confidence in the 1930s.

Apart from CEO statements, there's plenty of anecdotal evidence these uncertainties are a drag on the economy. Matson Money CEO Mark Matson believes many financial advisers are holding back on expansion because of uncertainty about how reforms will affect them. "The complexity is mind-boggling. It makes it hard to have a simple business plan. I know it's detrimental to small businesses," said Matson, whose Cincinnati investment company manages more than $2.5 billion.

Rodgers said venture-capital firms, those companies that fund new businesses, have also grown risk-averse. "In Silicon Valley, the money that would be put at risk to invent new things is being turned into mattress money. You simply don't take risks you would otherwise take."

Anti-business rhetoric

We're also living in a political era filled with rage, and CEOs aren't immune to the politics of the day. **Coca-Cola** (KO, news, msgs) CEO Muhtar Kent came close to comparing the Obama administration to the old communist regime in the Soviet Union while stating his opposition to a federal tax on soft drinks.

"I have never seen it work where a government tells people what to eat and what to drink," Kent said at the Atlanta Rotary Club in mid-September. "If it worked, the Soviet Union would still be around."

Others are speaking out because they're miffed by Obama's perceived anti-business actions. James Tisch, the CEO of **Loews** (L, news, msgs), which owns half of **Diamond Offshore Drilling** (DO, news, msgs), complained in an August interview with Bloomberg News that Obama's commission to investigate the **BP** (BP, news, msgs) oil spill wasn't adequately considering oil interests. "That sends a strong message to American industry that if your industry gets in trouble, there's a possibility you won't get a fair shake," Tisch said.

Then there's the populist rhetoric Obama has used, such as calling bank executives involved in the financial near-meltdown "fat cats." "One of the biggest problems that Obama has with these CEOs is the rhetoric," said Steve Soukup of the Political Forum, which analyzes political trends that affect markets. "He is making them out to be the bad guys, and they are firing back."

In an interview with The Wall Street Journal in April, for example, **JPMorgan Chase** (JPM, news, msgs) CEO Jamie Dimon lamented that the "incessant, broad-based vilification of the banking industry isn't fair, and it is damaging. . . . Punishing whole industries, whether you were reckless or not, just isn't the way to do things."

CEOs doing fine, too

Obama, of course, vehemently defends himself against attacks he is anti-business. In February, in a speech before a Washington, D.C., business lobbyist group, he said he is an "ardent believer in the free market." He defended his tax, regulatory and spending initiatives as necessary responses to a severe economic crisis. Those policies were about "saving the economy from collapse, not about expanding government's reach into the economy," he said.

And while Obama left this part out, the truth is that his policies don't seem to have hurt his loudest critics in the wallet. They earn well-above-average pay. Dimon, at JPMorganChase, earned $20.8 million last year, according to Hay Group calculations published in The Wall Street Journal. Verizon's Seidenberg got $18.9 million, and Intel's Otellini got $12 million.

Indeed, despite his much-criticized appointment of an executive pay "czar," there's little sign Obama has affected the CEO pay scale at all.

Nevertheless, the outcry from these CEOs will give Republicans a powerful weapon in the November elections. The political shift that Matson expects would hold Obama back -- which makes him bullish on stocks now.

"I think we will see a great backlash," Matson said. "History tells us that things turn around much faster than people can imagine."

Michael Brush is the editor of Brush Up on Stocks, an investment newsletter. At the time of publication, he did not own shares of any company mentioned in this column.

More from MSN Money

- CEOs: Cut more jobs, make more money
- Investors head for the bunker
- How the stock market is killing jobs
- 8 CEOs' total windfall: $250 million
- No inflation means no recovery