Fiscal Cliff Hostage Situation Day 22: What Business Community, President Obama?

By: Daniel Gross - November 28th, 2012

President Obama invited the 'business community' to talk about their interests in the fiscal cliff negotiations. Daniel Gross says good luck with that—there's no way to find a common goal in that group.

It's fiscal hostage situation crisis Day 22. And we have seen some movement. Rep. Tom Cole, a prominent House conservative, has called for his colleagues to make a deal right now to keep marginal tax rates low for the bottom 98 percent of Americans. (In time, this will come to be known as The Cole Capitulation.) Meanwhile, President Obama met with middle-class people at the White House, and said he was optimistic a deal could be done before Christmas. Oh, and a gaggle of CEOs came to the White House. Here's the full list.

It's unclear why President Obama is making such a big deal about meeting with corporate bigwigs. If you're trying to drum up public support for your bargaining position, how useful is it to have Goldman Sachs CEO Lloyd Blankfein on your side? Still, President Obama clearly benefits by having prominent members of the "business community" agitating for a quick deal. It puts pressure on Republicans to come to the table.

But beyond promulgating a generic desire for a deal, it's not clear that the business community can help the two sides get to yes. The business community is a community the way that Europe is. In theory, they have a lot in common; in reality, the constituents are extremely parochial, and occasionally go to war with one another. Some observers argue that it this concern for particular interests—rather than a desire for the general welfare—that explains the appearance at the White House of so many blue-chip executives. "The business community figures that taxes are going up, and they figure that if they come out and say there should be a deal, they will be spared," said Dan Mitchell, senior fellow at the Cato Institute.

In theory, these CEOs all need and want the U.S. economy to grow to prosper. (Although truth be told, many of them don't. One of the participants in the meeting is Muhtar Kent, CEO of Coca-Cola, which last year sold only 22 percent of its drinks volume in North America.)

When they get involved in public policy, CEOs have to balance concern over their personal situation (all these CEOs would get hit hard by an expiration of the tax cuts), concern for the national economy, and concern for the impact on the companies they run.

Defense contractors, for example, couldn't care less about the payroll tax cut, which is probably toast. For them, the sequester—the automatic, blunt cuts in defense spending that kick in starting Jan. 1—must be averted at any cost. By contrast, a retailer like Macy's, which derives most of its revenue from sales of stuff to middle-income Americans, cares not a whit about the sequester. It is more concerned about the payroll tax cut disappearing and marginal rates rising on lower-income earners. (Macy's CEO Terry Lundgren was among the group of CEOs at the White House.) The White House helpfully spelled out the potential damage to retailers in a paper it released this week: "The CEA estimates that consumers could spend nearly $200 billion less than they otherwise would have in 2013 just because of higher taxes."

Those who live and die in the global capital markets, like Goldman Sachs (CEO Lloyd Blankfein was on the roster), won't get too exorcised about the prospect of middle-class Americans paying more taxes. But with the average Goldman employee making $367,056 in 2011, the prospect of higher marginal rates on high earners is terrifying. And the fact that taxes on capital gains and dividends are set to double in January will certainly impact the company's ability to profit.

Indeed, it's hard for industries to present a united front, let alone the business community at large.

Take financial services. For big banks like Bank of America and Chase, which have huge retail banking operations, higher taxes on consumers would be harmful. For Goldman or the Blackstone Group, not so much. The Financial Services Roundtable, which lobbies on behalf of big financial institutions, soon after the election issued an urgent appeal to bridge the fiscal cliff. But it won't put forth a detailed roadmap. Said FSR Research head Scott Talbott: "It's too early to get specific."

Many business types favor leaving tax rates precisely where they are but getting more revenues through eliminating loopholes or capping tax deductions like the one for interest on home mortgages." Yahoo!, whose CEO, Marissa Mayer, was at the White House, wouldn't have too much of a problem with that. But Jerry Howard, chief executive officer of the influential National Association of Home Builders, told me Wednesday that the mortgage interest deduction "shouldn't be part of the conversation right now. . . We think it is really, really foolish to talk about anything that would throw a monkey wrench into the housing recovery."

It goes on. Simplifying the tax code is appealing to CEOs, but perhaps not for White House visitor Joe Echevarria, CEO of accounting firm Deloitte, which prospers on the complexity of the tax code. Reform entitlements by clamping down on payments to suppliers and providers? Visitors Kenneth Frazier and Ian Read, the CEOs of Merck and Pfizer, respectively, would find that odious.

As much as they stand to benefit from a big solution, many members of the business community have a great deal to lose from a grand bargain. As a result, the business community has a tough time presenting a united front on specifics. Perhaps that's why the broadest business group is essentially recommending that Washington punt. "The Chamber's message has consistently been that the nation must not fall off the fiscal cliff," said Sally-Shannon Birkel, manager of media relations at the U.S. Chamber of Commerce. "We have not drawn any lines in the sand. We are advocating for Congress and the administration to immediately avert the fiscal cliff and put together a framework to negotiate a Big Deal in 2013 to control the debt and put our economy on a path to robust growth."

And yet the business community's rational pursuit of parochial interest will continue to make a cliff-averting deal elusive. "It's one thing for business leaders to have a public meeting" and appeal for a deal, said Dan Mitchell of Cato. "But behind the scenes they are all trying to stab each other in the back and throw each other under the bus."