



A New Administration: The Impact On Local Industries

President-elect Barack Obama will be inaugurated as the United States' 44th commander-in-chief on January 20, 2009 – a day that many people view as historic. Given the current state of the national economy, however, Obama will certainly face significant challenges as he starts building his presidency over the next two months and once he officially begins his term.

Business Journal writers Thyda Duong, Alexia Terzopoulos and Stacy Clements spoke with a number of local experts to gauge the potential impact of Obama's victory on some of Long Beach's major industries.

Financial Services

Come January, Obama will inherit a host of financial problems, and his presidential priority list to strengthen the faltering economic climate includes plans to assist homeowners and create new jobs, as well as to cut some taxes and raise others. Experts note, however, that it may still be too early to predict how his proposals will ultimately roll out.

"Between now and . . . the first 100 days of Obama's presidency, the government is going to have to really get the implementation down on the capital asset programs, and they've got to do something on the foreclosure prevention program," says Beach Business Bank Chairman James Gray, who distinguishes between short-term and long-term activity.

The worst thing the government could do, Gray adds, is "hip shoot" with these programs, overlooking their execution and impact. Rather, once the programs are established, the U.S. Treasury Department and Internal Revenue Service should collaborate on amending any associated accounting issues, he says.

In the long term, Gray says he expects to see additional changes within the financial services industry, particularly with the regulations governing investment and mortgage banking. In addition, government officials will have to rewrite the Fannie Mae and Freddie Mac charters because they are no longer appropriate, following the federal takeover in September.

Blake Christian, partner with Holthouse Carlin & Van Trigt, anticipates that year-end tax planning will be at least 50 percent busier, as clients will likely have to navigate through new rates. Under the Obama-Biden plan, middle-class families (defined as making less than \$250,000 per year) will not see tax hikes, while those making more than \$250,000 will pay similar rates to what they paid in the 1990s. Obama is expected to ask the wealthiest two percent of U.S. families to return a portion of the tax cuts they received over the past eight years.

"The upper-income taxpayers are definitely looking at recognizing capital gains . . . and also accelerating income, even wages, into 2008, versus deferring [them] into 2009 and possibly paying higher taxes," Christian says.

He adds that the proposed tax brackets could also impact small-business owners, given that roughly 80 percent of businesses operate as flow-through entities, with revenue included on the owner's personal income tax return. "What most people would define as a very small business could easily throw the ultimate owners of that business into the 'rich' classification," he explains. "Most of these tax hikes . . . will impact small businesses, as well as the large ones."

However, Christian notes, if problems persist among unemployment rates, interest rates, the stock market and other economic indicators, Obama will be less inclined to push for tax increases in the first six months or year of his presidency, over fear that they will further slow the economy.

The outlook for the stock market, meanwhile, is "impossible to predict," Christian says. "It could go anywhere from rallying the stock market because [Obama] is likely going to be pushing very hard to stimulate the economy through spending," he explains. "And then there are others who [see the] inflation and unemployment rates and everything [else] – he's not going to be able to fight that completely, so the stock market will continue to have problems."

Healthcare

Recognizing the need to make changes in the national healthcare system, both Obama and Sen. John McCain discussed their plans to remedy the broken system. Both candidates, for instance, stressed prevention and management, particularly of chronic diseases – a challenging issue to address, says MemorialCare Medical Centers President and CEO Barry Arbuckle, noting that

20 percent of the population consumes 80 percent of the healthcare dollar.

“To say that conceptually, and then to implement [a plan] takes years and a lot of testing of various models,” he explains. “I don’t know that we’ll see any action on that, [but] I think we’ll hear about it.”

And, irrespective of the administration, comprehensive national healthcare reform is also a challenging – and perhaps impossible – feat, he notes. “Reforming healthcare comprehensively at the national level is so complicated and so controversial and there are so many stakeholders that it’s going to be a long time coming,” he says. “Any imagination that anything will happen in [Obama’s] first term at the comprehensive level is pure fantasy.”

Still, Arbuckle says he anticipates Obama will strive to make changes, including the expansion of the State Children’s Health Insurance Program; possible investment in an electronic medical records system and healthcare information technology; and reinforcing efforts to expand coverage to the uninsured population. The Obama-Biden healthcare plan would require large employers that do not offer coverage to contribute a percentage of payroll toward the costs of their employees’ healthcare.

The Obama-Biden camp has also stated it intends to lower drug costs by allowing the federal government to negotiate lower drug prices for the Medicare program. “The United States is one of few, if not maybe the only, developed nation where the government is prohibited from negotiating with pharmaceutical companies for drugs, and that’s a big cost issue,” Arbuckle says. “And as a result, our drug costs are higher.”

The future of Medicare Advantage Plans, meanwhile, is cloudy and is therefore a concern for Arbuckle. While the Bush administration created incentives to encourage people to adopt managed care plans, Obama stated he would neutralize the payment between traditional Medicare and Medicare Advantage.

“I’m not sure that’s a good idea,” Arbuckle says. “The best thing that we could have happen, both for the Medicare Trust Fund – which as [we] know has been projected to be bankrupt by the year, I think, 2018 – but also for our U.S. healthcare system, is to encourage people in any way we can, to move from traditional Medicare into Managed Medicare. It’s a far more efficient means of providing care, and I’m speaking from the provider perspective, and I think also from the consumer perspective.”

Nonetheless, it remains hard to predict the impact Obama’s administration will have on the healthcare industry, Arbuckle adds. “I think we’ll get a lot of talk and discussion and planning, but it’s hard to tell exactly how much action will come out,” he says. “I don’t think we’re going to see major national healthcare reform in any near future, but I think we’re going to see him begin to piece away at some of the things, and I just hope he picks on the ones that are logical and can produce benefits for the consumer.”

Energy/Environment

Energy and energy security were among the central issues addressed during the presidential race, with both candidates citing the importance of fully utilizing domestic resources. Obama’s administration has declared its commitment to tackling global climate change and reducing America’s dependence on foreign oil.

“Senator Obama expressed support for better utilizing America’s energy resources, and in that regard, we are encouraged,” says Tupper Hull, spokesman for the Western States Petroleum Association, which represents 27 petroleum companies that are the major providers of petroleum products to consumers in the Western United States.

Early in his campaign, however, Obama said he would impose a windfall profits tax on U.S. oil companies. And while the issue faded from the center of his platform, it still concerns the petroleum industry, as it does other businesses that are faced with an ambiguous tax, Hull says.

“There really is no definition of a windfall profit,” he explains. “The oil and gas industry profits are absolutely in line with and consistent with the returns or profits of most American businesses. The numbers that get reported are very large, . . . but these companies and the scale of their operations are also extraordinarily large – they are global, the expense involved in finding, developing and delivering energy to consumers is extraordinarily high. So the profits of oil companies are no more, no less than the average American business.”

“They are in the 7- to 8-cents-per-dollar range – certainly not out of line,” he adds. “So that was a concern – it always is a concern – when a sector of the economy is singled out for that type of consideration.”

Still, Hull notes that the industry is optimistic about the administration's position on developing alternative energy. "America needs to take care of its energy future by conserving energy in every way we can, developing a broad portfolio of alternative energy supplies, which our members are doing, and also making sure that we're using that energy that we have at our disposal," Hull says. "And we're confident that Senator Obama shares that view."

The National Resources Defense Council, meanwhile, is also encouraged by Obama's position on the environment, according to spokesperson Jessica Lass.

"From what we've seen, President[-elect] Obama is definitely . . . a champion for the environment, and when he was a senator, he made some very sound environmental votes," she says. "I think he will be a champion for getting us beyond our dependence on fossil fuels and moving forward in reducing our global warming emissions and investing in a new clean-energy economy."

The new administration has campaigned on a platform to reduce U.S. carbon emissions and dramatically increase federal investment in advanced clean-energy technologies and energy efficiency. The Obama-Biden energy plan aims to ensure that 10 percent of the nation's electricity comes from renewable sources by 2012, and 25 percent by 2025.

"Obama really campaigned on the message of repowering America, and we have that opportunity right now," Lass says. "We have this opportunity to draw on our greatest resource, American workers and ingenuity, to build economic energy and climate security. . . . Obama's administration is at this critical point where they can decide to invest in the renewable energy industry, which is a blossoming industry that just needs more funding and investment, to really take us into the future and to get us beyond investment in fossil fuels."

International Trade

According to Obama's campaign, his administration will work toward implementing trade policies that open up foreign markets to support American jobs, as well as using international trade agreements to spread good labor and environmental standards. He also indicates that he may reopen the North American Free Trade Agreement (NAFTA), end tax breaks for companies that outsource jobs, reward companies that support American workers and improve transition assistance programs for workers.

Jack Kyser, senior vice president and chief economist at the Los Angeles County Economic Development Corporation, is somewhat apprehensive about whether Obama will really reopen NAFTA because that would "open up a whole can of worms," he says.

"There are a lot of people who are very hostile to NAFTA. On [the other hand], it's been more positive [reactions] than negative, but it's a very emotional issue," he explains. "We have to watch the Democrats in Congress because they are not fans of free trade. You've had a lot of free-trade agreements that have not been completed, so people are a little bit nervous that maybe there will be a hostile attitude to international trade from the new administration."

Meanwhile, Kyser and other industry experts anticipate that Obama will primarily focus on domestic policy and the national economy before moving forward with his international trade objectives. Nevertheless, the United States could ultimately suffer significant losses if the new administration fails to negotiate closer ties with trading partners, given that international trade continues to be an important element of the U.S. economy.

"We've shifted. We can't produce commodity items in the United States at a competitive price, but we can do specialized products and we can do specialized commodities," Kyser says. "We have to step back and say, 'What is our real competitive advantage here?'"

The Boeing Company's C-17 Program

National security took precedence for both U.S. citizens and elected officials following 9/11, which likely factored into a win for President George W. Bush in 2004. This election was no different, with each candidate voicing different strategies and an outcome that could ultimately impact defense spending.

The Obama-Biden plan states: "We need greater investment in advanced technology, ranging from the revolutionary like unmanned aerial vehicles and electronic warfare capabilities, to essential systems like the C-17 cargo [aircraft] and KC-X air-refueling aircraft, which provide the backbone of our ability to extend global power."

Given that The Boeing Company is the largest private employer in Long Beach, discontinuation of the C-17 program could affect roughly 5,500 jobs citywide and another 5,700 supplier jobs statewide.

“We stand ready to help the new administration in any way we can,” a Boeing spokesperson told the Business Journal. “We recognize that there is a global financial crisis that may affect defense spending, and we will respond to our customer with the most cost-effective products and solutions for meeting our nation’s security needs.”

Higher Education

Although little was said about higher education during the presidential race, the Obama-Biden plan outlines an American Opportunity Tax Credit. The \$4,000 college credit will require recipients to complete 100 hours of community service.

“I feel confident that once the economy has been able to recover more, his impact will be very positive,” says F. King Alexander, president of California State University, Long Beach. “We might even be able to explore some new progressive policies that help public higher education.”

As for the impact of the credit market on student loans, Alexander says Obama intends to move toward a direct-lending system, in which institutions work with the department of education, instead of with private lenders. “[It’s] a fail-safe program [for] institutions that have trouble with private lenders in this credit market,” he adds.

Real Estate Development

Dennis Higgs, president and CEO of Newcastle Partners Inc., says Obama ran a smart campaign that should transition into his presidency and boost overall business. Newcastle and RREEF Alternative Investments are developing a 54-acre mixed-use community at Douglas Park in Long Beach.

“This is probably the only construction going on in California,” Higgs says. “There’s a lot of capital [and] a fair amount of risk. We’re real optimistic.”

He calls Obama “very bright and intelligent,” noting that the new administration could help “dig us out” of the current economic turmoil. “We’re not done until next summer, so you can’t time it perfectly,” Higgs says. “I think there’s going to be a lot more optimism in the overall economy next summer.”