Obama must learn to love business

By John Gapper
Published: October 27 2010 20:24 | Last updated: October 27 2010

After enduring torments in George Orwell's *1984*, Winston Smith learnt to love Big Brother. After the midterm elections, which are also likely to be painful, Barack Obama should learn to love big business.

The US president, a former community organiser in Chicago whose formative professional experience was helping the dispossessed after steel companies and manufacturers left town, has never shown affection or sympathy for US multinationals. One of his favourite jabs at Republicans is that they seek tax breaks for corporations "to ship jobs overseas".

The president occupies a Manichean world in which small business is worthy and big business suspicious. Almost as often as he praises Main Street and denounces Wall Street speculators, he proclaims enthusiasm for small and medium-sized employers while disdaining or berating global enterprises.

The suspicion is mutual. Two years ago, many chief executives enthused about Mr Obama's pragmatism and intelligence but that has changed. Leaders such as Jeff Immelt of General Electric and Ivan Seidenberg of Verizon have complained about his rhetoric and his administration's regulatory and trade policies.

Mr Obama has to bridge this gulf, and may be nudged into doing so by Republican gains in the midterm elections next week. It is not only bad politics to provoke such an ill-tempered split with companies that can help to create the new jobs the economy needs, but bad policy.

The president does not like bankers much, and has no reason to, given that some of the Democrats' political troubles come from taking responsibility for the unpopular troubled asset relief programme. But rather than halting there, he has also treated multinationals – particularly energy companies and those with manufacturing plants overseas – as cartoon villains.

The rhetoric has escalated on the other side, with the US Chamber of Commerce complaining that the White House and Congress have "vilified industries while embarking on an ill-advised course of government expansion, major tax increases, massive deficits and job-destroying regulations".

Some of these complaints are self-serving. Mr Obama had little choice but to enact the Dodd-Frank financial reform bill and the federal deficit ballooned under George W Bush. Businesses are predisposed to preferring the Republicans to the Democrats and Mr Obama never hid, for example, his enthusiasm for healthcare reform.

Beneath the rhetoric, however, is a truth – that Mr Obama has failed to understand or communicate the role big business plays in remoulding the economy and creating highly skilled and highly-paid jobs. Unlike Bill Clinton, the previous Democratic president, he sounds as if he thinks multinationals do little but suck work out of the US.

The irony is that countries such as China yearn to cultivate equivalents of Apple, GE and other companies that combine global manufacturing with a high level of research and development, and capital investment in their domestic markets. Such companies can create high-skilled jobs to replace the low-wage assembly work being taken by China and Vietnam.

Matthew Slaughter, a professor at Dartmouth University and a former member of the Council of Economic Advisers under President Bush, found in a study for the McKinsey Global Institute that multinationals account for 74 per cent of US private sector research and development, and 41 per cent of gains in labour productivity since 1990.

Big companies also support networks of smaller companies – the ones that Mr Obama likes – through supply chains. That point was not lost on the president when he used government money to prevent General Motors and Chrysler from collapsing into liquidation. Since then, he has forgotten it.

Jeffrey Garten, a professor at Yale University and former official in the Clinton administration, predicts that Mr Obama will signal a change of attitude following the midterms, if only as a matter of "pragmatic cosmetics". There are signs that the White House would like to recruit an experienced business leader to the cabinet (ideally Michael Bloomberg, mayor of New York City).

Mr Obama ought to do more than that. Mr Garten identifies "a few dramatic things" that would give US multinationals not only the feeling of being wanted, but also incentives to keep investing at home. Like it or not, they have the choice – 55 per cent of S&P 100 companies' revenues now come from overseas sales, compared with 24 per cent in 1990.

One would be to sign bilateral trade deals with countries including South Korea, Panama and Colombia; another to frame a credible path towards reducing the federal deficit in the medium-term. The US should also ease restrictions on visas and work permits for foreign students who will otherwise take their skills elsewhere.

Mr Obama has too often relied on campaign rhetoric that appeals to trade unions and the unemployed in the US heartland. In reality, the jobs that have gone to China are not coming back, no matter what the dollar exchange rate or level of protectionist tariffs.

The best hope is to replace them with higher value-added goods and services, and with education and infrastructure that draws investment by companies big and small. A wise president would know that.

john.gapper@ft.com