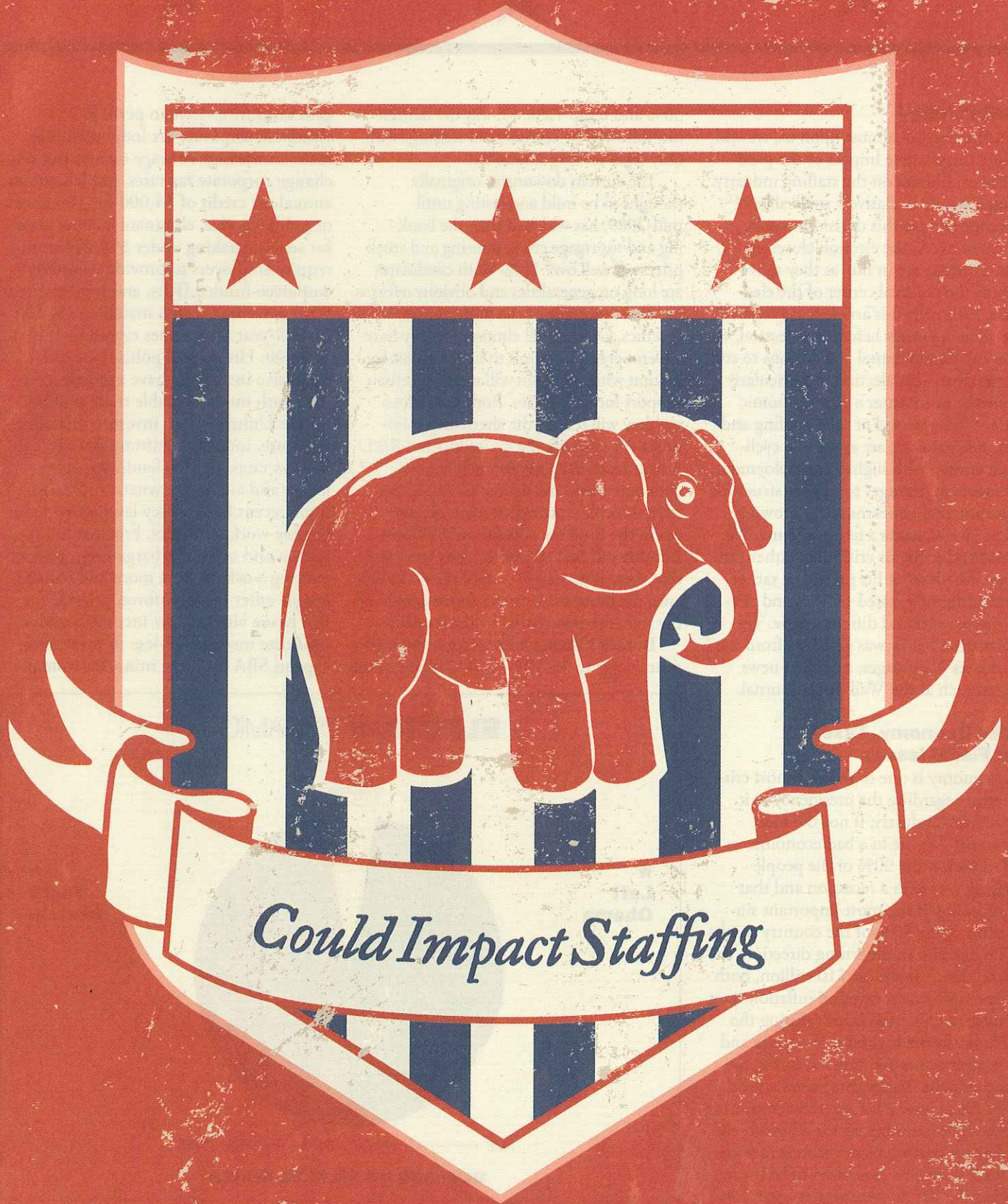


By Michael Neidle, President, Optimal Management, Inc.





Could Impact Staffing

Overview

With the election almost upon us, we will explore the possible impact of the presidential candidates on the staffing industry. Though we are a relatively small slice of the economic pie this decision may be critical to us. As the election closes in, their positions are in flux as they move towards the political center of the electorate. Although this article was prepared more than a month before the election, we believe its fundamental conclusions to still be operative. This election is particularly important as we enter a new economic phase. After a period of solid staffing and economic gains we are again in a cyclical downturn with higher unemployment and inflation, changes to our tax structure, environmental concerns and a growing deficit, just to name a few problems. We are not endorsing or critiquing either candidate, his views or his party, but rather contrasting their stated policies and noting where expressed differences lie. The information below was gathered from the candidates' Web pages, as well as news sources such as the Wall Street Journal.

I. The Economy, Taxes and Fiscal Issues

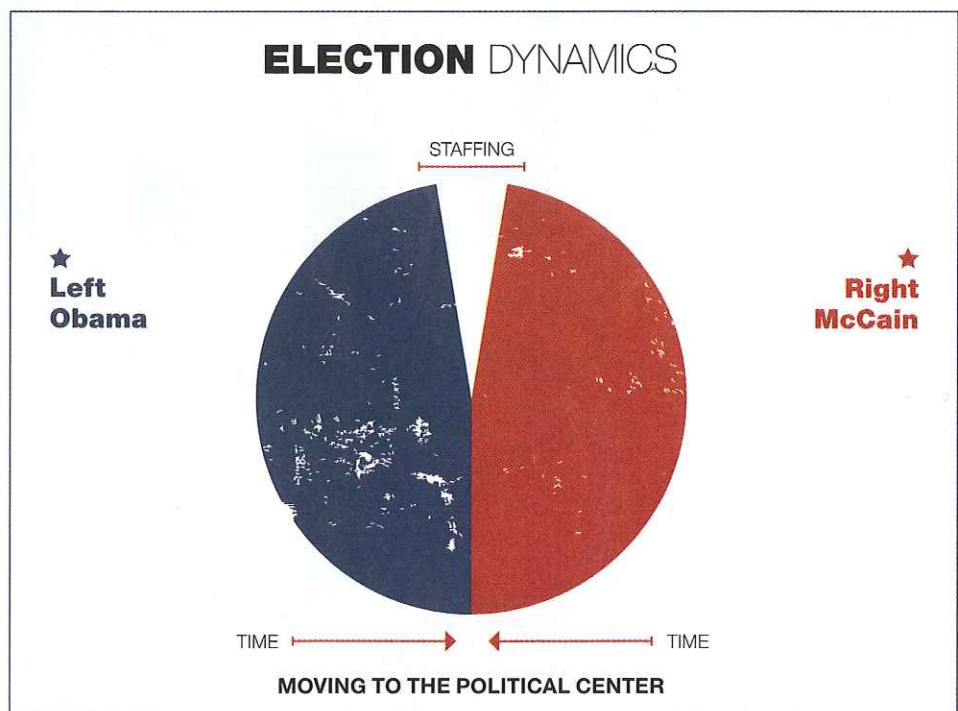
The economy is one of the two most critical areas regarding the presidency as it impacts our industry, if not the most important. We are in a bad economic period with some 90% of the people thinking we are in a recession and that the economy is the most important single issue. Some 80% of the country thinks we are heading in the wrong direction, the Federal deficit is almost \$10 trillion, both the unemployment rate and inflation rates are close to 6%, mass layoffs during the first half was the highest in five years and the perfect economic storm is facing the next president. Many companies are either laying off or have a hiring freeze impacting perm, while the temp sector is already the hardest hit portion of the economy, with both off some 7% compared to last year. During the last downturn perm was down

30% and temp 12%. IT was the hardest hit, followed by commercial staffing, with only legal staffing unscathed.

The current downturn, originally thought to be mild and lasting until mid-2009, has widened with the banking and mortgage crisis, housing and stock prices off well over 15%. Both candidates are long on generalities and obvious reforms but short on some of the more controversial specifics. Obama will almost certainly have a Democratic Congress to help pass his legislation while McCain will need bipartisan support for his policies. Both candidates say they will reduce the alternative minimum tax, simplify the tax code, fund R&D investments, keep the Internet tax free, eliminate waste and earmarks, restore the federal surplus, provide student aid and retain the Bush tax cuts for most citizens. But this will be a tall order. The problem is that there is no way for either person to balance the budget due to the deficit caused by the war and exacerbated by the recession.

Barack Obama will increase the minimum wage to \$9.50 by 2011, raise capital

gain taxes from 15% to perhaps 25%, eliminate corporate tax loopholes, raise taxes on the highest wage earners but not change corporate tax rates, implement an annual tax credit of \$4,000 for 100 hours of public service, eliminate income taxes for seniors making under \$50,000/year, require employers to provide voluntary employee-funded IRAs, and implement a 50% government IRA match on the first \$1,000/year for families earning less than \$75,000. His general policies are quite expansive including: have a global economy with more favorable trade policies for the United States, invest in our infrastructure, index the minimum wage, cap interest rates, tighten lending requirements and aid homeowners, roll back some recent bankruptcy laws, provide for flexible work schedules, broaden unionization and collective bargaining, protect striking workers, have more low-income people enter the workforce, provide for RN home visits to low-income families, subsidize medical services to rural areas, expand SBA for more minority/woman-





owned businesses, expand the Family and Medical Leave Act (FMLA) for paid sick leave, and end oil and gas subsidies and tax havens/shelters.

John McCain would gradually cut the maximum corporate income tax rate from 35% to 25%, retain the 15% capital gains tax, double the dependent tax credit to \$7,000/year, raise the estate exemption to \$10 million, require a 60% Congressional majority to raise taxes, immediately help those impacted by inflation and the housing crisis, provide legislation favoring entrepreneurs, reduce business tax rates to those of our international trading partners, provide a line-item legislation veto, reform the procurement process, Civil Service and Social Security systems, and consolidate many federal programs.

Staffing and the Candidates on the Economy, Taxes and Fiscal Issues

As always, the staffing downturn will recover, although various niches such as nursing historically do well during recessions, and so far the professional staffing has fared relatively well. Overall,

unemployment has returned to 2003 highs, with construction, leisure and hospitality most impacted, and the professionals and technical areas the least. So, who might be better for staffing with respect to these issues? Most polls think that Obama is best suited to solve this problem. Though neither candidate has strong credentials here: Obama is inexperienced, and McCain noted that the economy was not his strongest suit. Both will be sure to bring on strong economic advisors but McCain's comfort zone is in foreign rather than domestic issues, with Obama's orientation towards domestic problems, which will impact the health-care, technical and commercial staffing areas. Nevertheless his positions on taxes, unions and labor could be very problematic for our industry. Corporations will likely do better under McCain. Although both candidates promise not to increase most people's taxes, Obama will raise capital gains and marginal rates for those earning over \$250,000/year. Lower-wage light industrial and clerical temps will do better tax-wise under Obama, which

might enable staffing companies to hold down wage demands, while contract professionals and staffing employees will see little tax impact. Staffing company owners with high incomes and those with S corporations will likely see higher taxes under Obama. If Obama tinkers with the tax code, this will result in more legal and accounting staffing jobs. Due mainly to Obama's leanings towards workers rather than businesses, we would have to give the advantage to McCain here.

II. Technology, Industry, Energy and the Environment

All staffing sectors are affected by the presidential policies in this area, although some are impacted more than others. And this, therefore, presents a very critical issue impacting our industry. The United States has lost our once-vaunted industrial advantage, losing millions of low-tech jobs to China, while many high-tech ones have migrated to India. For staffing to grow the United States must be innovative in new technologies, retain its industrial base and have a ready supply of cheap energy. In the

RELATIVE **STAFFING** ADVANTAGE

I: Economy, taxes and fiscal issues
McCain

III. Ethics and lobbying
McCain

V. Security, trade, foreign policy and homeland security
Obama

II. Technology, industry, environment and energy
Obama

IV. Immigration and social issues
McCain

VI. Healthcare, education and the family
Obama



favorite of organized labor, which is generally at odds with the staffing and temps in particular. McCain is pro business and will likely be more favorably disposed to our industry.

IV. Immigration and Social Issues

McCain has a short list of positions here, while Obama's are more extensive and clearly a priority for him. Although these issues might not seem as important to us as some others, they are relevant. Both are for increased border security and increased legal immigration and a path towards citizenship. Immigration issues clearly impact our available labor pool, from semi-skilled light industrial temps primarily from Mexico, to nurses often from the Philippines and high-tech workers predominantly from India. Social issues, though they do not impact staffing as directly, definitely affect the electability of the candidates.

McCain's position here has evolved as in other areas. He is for higher immigration to provide for a flexible labor

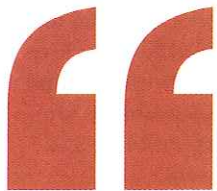
embryonic stem cell research and same sex marriage.

Obama is also for more immigration for those jobs that can't otherwise be filled, but he will crack down on employers who hire undocumented workers. He is more focused in the social issues than McCain, but some of his stands are controversial as well, including: strengthening civil rights laws, stringent enforcement of equal pay provisions, ending discrimination based on sexual orientation, expanding hate crime laws, banning racial profiling, providing job training and mental health counseling for ex-offenders and prisons-to-work programs for first-time users, creating better prisons to work programs, providing disadvantaged youth a way to complete their schooling or learn a trade, having full disclosure on retirement plans and not allowing executives to receive bonuses when cutting pensions and benefits, aiding low-income families to pay their home energy bills, facilitating more jobs in urban areas, closing gun show loopholes and banning

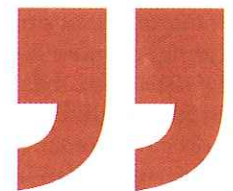
help sectors such as commercial and legal staffing as well as healthcare. Obama could be expected to allow more immigrants to favorably impact LI jobs. Most staffing companies would likely lean against new social programs due to their higher cost and potential for lawsuits. This would more likely happen under Obama, at least in the short term. Advantage: McCain.

V. Security, Trade, Foreign Policy and Homeland Security

This is a less critical area to staffing than others, but with international tensions again escalating due in part to a newly confrontational Russia, this could be the deciding factor in the election. Both candidates are for renewed funding for more troops and defense spending. And here again both men have veered away from some of their prior positions to try to win the general election. They are now converging on an Iraq timeline; McCain is foreshortening his 100-year commitment to some five years, and Obama is



A recent Adecco survey found that workers believe a diverse workforce results in a successful and productive workplace in the long run. Increased immigration will help keep wages down, increase one's fill ratio, and improve sales and margins.



market to keep our businesses competitive. He also recognizes the importance of assimilating immigrants into our culture and learning English. He is a strong supporter of veteran's programs and provides them assistance in reentering the civilian labor force, including extended unemployment benefits, vocational training, as well as post-traumatic stress and substance abuse treatment, although for budget reasons he has not voted on some recent programs. His stand on some more controversial social issues includes nominating Supreme Court Justices to overturn Roe v. Wade, giving restrictions on assault rifles and waiting periods, governmental support of faith-based organizations, and opposing

assault weapons while supporting the second amendment, doubling the funding for after-school programs and providing a 50% child credit for low-income families. As for Social Security, he will not raise the retirement age or privatization, but will raise the annual payroll tax cap to help fund it.

Staffing and the Candidates on Immigration and Social Issues

A recent Adecco survey found that workers believe a diverse workforce results in a successful and productive workplace in the long run. Increased immigration will help keep wages down, increase one's fill ratio, and improve sales and margins. The programs of both candidates should increase job training programs and will

extending his withdrawal to at least 16 months. Both will work to secure nuclear materials, strengthen non-proliferation treaties and fund new defense and homeland security projects. But with Iraq requesting our withdrawal, this may become less of an issue. As we noted before, in the final analysis national security may trump all other issues given another 9-11 type of late innings crisis, which would have a definite advantage for McCain according to most polls.

Obama's perceived inexperience in foreign affairs led to his selection of Joe Biden as his vice presidential running mate. He capitalizes on his initial opposition to the Iraq war to secure his party's nomination, emphasizes a stable Iraq and Middle East, keeping some forces locally to strike



February issue of *SI Review* we discussed how staffing companies are moving into environmental areas. The president who can make the United States competitive in these areas will be critical to the success of our industry.

McCain's objective is to make us more competitive by emphasizing education, venture capital, entrepreneurship, innovation, advanced technologies, commercialization of R&D, job transition and retraining programs for those who have lost their jobs and can't be retrained, and to supplement unemployment insurance for those out of work for two years. He is a strong supporter of NASA and the space program. He was one of the first Republicans to have strong environmental policies and has advocated for a strategic energy reserve. His climate policy encourages new technologies, but with fewer mandates, specific programs and hard numbers. He has called for a 60% reduction in CO₂ emissions by 2050, which is close to Obama's 80%.

Obama proposes to modernize our transportation, automotive, manufacturing, communications and high-tech infrastructure. His short-term plans now include flexibility for some drilling in non-environmentally sensitive areas. His longer-term plan includes investing \$150 billion over 10 years in biofuels/biomass, plug-in hybrids, a digital electricity grid, clean coal, and solar and wind resources, mandating that 25% of our electricity comes from renewable sources, a 50% improvement in energy efficiency; reducing oil consumption by 35% (offsetting OPEC imports); doubling our fuel economy standards, setting standards for buildings at zero emissions and restoring the Superfund program.

Staffing and the Candidates on Technology, Industry, Energy and the Environment

As in most elections, the winner will most likely be the person who remembers the slogan "It's the economy, stupid," with the caveat that an

international crisis can change everything. Both candidates have refocused their message on energy, inflation and the best way to deal with the energy crisis with gasoline around \$4/gallon. We are now seeing some LI and clerical support jobs moving back to the United States as transportation costs are outweighing previous labor savings. McCain is looking at the more tried and proven solutions of drilling for oil and nuclear power. He admits that new production will not come on-stream for at least eight years, but those staffing firms engaged in these technologies will do well.

Obama is moving more cautiously here with his solutions aimed more towards energy conservation, which will generate IT and engineering jobs now. The promise of millions of new jobs is way down the road. Nevertheless, staffing companies are making green placements today in areas such as urban planning, attorneys dealing with intellectual property and engineers dealing with energy conservation. Others are capitalizing on making themselves green by minimizing temp commutes, providing credits for car pooling, filling jobs near public transportation, etc. On balance one might consider Obama to have the edge here.

III. Ethics and Lobbying

After many years of easy access to the Oval Office and the Congress by the so-called K Street lobbyist, many people now want government reform in this area. No legislation or policy statements will prevent lobbying from taking place, as where there is a will there is a way to get across a message. The worst abuses will be eliminated, but more acceptable modes of communication will take their place. On the issue of lobbying there is a more substantial difference between the two candidates, with Obama refusing to take registered lobbyist campaign contributions. There is no cause-and-effect relationship between lobbying and ethics but the connection is clearly there, with notable examples such as ABSCAM, the Savings and Loan debacle,

the House Banking scandal and energy companies creating our national energy policy, just to name a few. Both oppose earmarks, no bid contracts and pork barrel spending, although they can't control Congress. The fact is that many congressmen and their aids who created legislation then become lobbyists for the same firms that they once regulated, and neither party can claim the moral high ground. Both are against the revolving door of government employees becoming lobbyists.

Obama's campaign centerpiece (other than ending the war) is an open government, including an Internet database to identify lobbying activities. He intends to use his office as a watchdog for congressional ethics violations. Although he has supported public financing of elections he has opted out for public financing for the current election. He promises that new hires are not based on political affiliation or campaign contributions.

McCain says that people come first, rather than to narrow special interest groups. He is more aware of this problem than most, having been censured for his activities in the so-called Keating Five S&L Scandal in the 1990s, while Obama had his more recent Resco problem. He wants to restore fiscal responsibility and exercise the presidential veto.

Staffing and the Candidates on Ethics and Lobbying

We in the staffing industry are our own special interest group and use lobbyists to present our side of the issue just as those with a different point of view do with their congressmen. We try to present our views and have legislation that is favorable to staffing, and use our PAC monies in an effective way to get legislators attention. Organized labor and corporations are often on the other side of issues facing our industry. Occasionally we are on the same side, however, as when labor and staffing lobbied against moving jobs off shore and when we were allied with big businesses in favor of granting more H1B visas to IT professionals. Obama is a



Al Qaeda if needed. He supports direct talks with the leaders of our adversaries without preconditions, solving the Israeli-Palestinian conflict, having a national town hall meeting to discuss foreign policy and has a bipartisan commitment to military action. He is for fair trade policies to create jobs, strengthen our economy and open up foreign markets, ending foreign subsidies and barriers on exports and modifying NAFTA to recover some lost jobs and retrain displaced workers. He is committed to reducing global poverty in half by 2015, and he will double foreign aid to \$50 billion with an emphasis on Africa and Iraq. He will seek new partnerships with Japan and South Korea and attempt to have China play by the rules. He is for strong sanctions for WMD violators, will

improve security for nuclear and chemical facilities, transportation and communications systems, will improve disaster preparedness systems, allocate spending based on risk levels and fund more money for first responders. He will not fund new U.S. nuclear weapons programs.

McCain's strong suit is defense and homeland security and outpoints Obama as commander in chief in all polls. He has always wanted to stay in Iraq longer, but with the Al-Maliki government's requesting our exit by 2011 that desire may now be academic. He wants the international community to help spur Iraq's economy, for their neighbors to invest in Iraqi oil exports and hopes that a healthy private Iraqi sector will end their reliance upon us. He is against an unconditional dialogue

with our enemies, will work with other nations against Islamic extremism, will reform wasteful defense spending, is for an independent CIA and is a proponent of a missile defense system. He will end ethanol subsidies, tariff barriers and sugar quotas, which he believes all contribute to inflation. He will engage in multilateral talks to reduce barriers to trade, and level the playing field for global trade, which will help strengthen the U.S. dollar and control inflation and will place added importance on Central and South America.

Staffing and the Candidates on Security, Trade, Foreign Policy and Homeland Security

Foreign trade does not yet seem to be a priority of either candidate, but it should be,



as China now imports as much as it exports (\$1.2 trillion/year). Their growing middle class is as large as our entire population, and we can no longer decouple our economies. Our overall trade imbalance is easing in part to the devalued dollar in manufacturing as well as higher-end sectors such as accounting, IT, engineering and healthcare. However, the cost of the war will nevertheless be a drag on the economy overall and will negatively impact staffing directly or indirectly. Given that Obama has been better received internationally than McCain and that the Iraqi withdrawal process will likely be less of an issue, we would have to give the advantage here to Obama.

VI. Healthcare, Education and the Family

One of the major advantages that staffing companies have has been that we can provide labor at a lower rate than direct hire employees. A universal health insurance program could eliminate this. Both candidates want to lower the cost

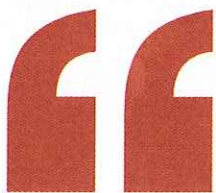
of medications and have the government involved in negotiating drug prices. He plans to expand FMLA to cover businesses with 25 or more employees and to now include taking care of elders, participating in school activities, and domestic violence, costing some \$1.5 billion of Federal assistance. He will encourage flexible work schedules, increase federal incentives for telecommuting, train more nurses and healthcare workers, and create a loan forgiveness program for doctors and nurses in rural areas. His initiatives for education are extensive, addressing everything from early childhood programs and higher education, reducing dropouts and improving the retention of quality teachers.

McCain wants to reform the healthcare system by a combination of portable insurance plans for employers and coverage, or a tax credit of \$2,500/individual and \$5,000/family to offset the cost of health insurance, with a low-cost nonprofit corporation insuring those who are denied coverage. He will reduce costs by eliminat-

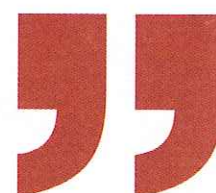
potential cost impact of his programs to staffing companies are real, particularly with respect to lowering the threshold at which FMLA kicks in and the lack of specificity in the size of companies that would be required to provide mandated healthcare coverage. Likewise, Obama's education proposals are broader and will likely benefit all staffing specialties and staffing companies more, but this would be over the long term and costs would have to be funded. Advantage: Obama.

Summary and Intangibles

Not all areas are weighted the same when it comes to their impact on staffing. The economy and technology are more important to us, and the candidates are rated about evenly here. The other four areas are less critical to us and are split evenly. But there are a couple of intangibles to consider. Obama's positions are more detailed, documented and broadly based. On the other hand



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of healthcare, medications, lawsuits and insurance programs, and improve our educational system and the nebulous issue of family values.

Obama has pledged to reduce healthcare costs and to cover most people with affordable and portable coverage. Most employers that do not offer or make a meaningful contribution to the cost of quality health coverage for their employees will be required to fund a percentage of payrolls toward the costs of the national plan. His plan allows small employers that meet certain revenue thresholds to be exempt, although this has not been defined. He plans to reduce malpractice suits, invest in electronic medical records, increase competition, foreign purchases

ing frivolous lawsuits, delivering care to people at home and providing a monthly healthcare stipend to seniors. He believes parents should be able to choose the school they want to send their children to. He will address the underlying cultural problems in our education system, which avoids accountability for the education of our children. He will allow parents to remove children from failing schools and the federal government to cut funding.

Staffing and the Candidates on Healthcare, Education and the Family

Obama's proposals are more extensive and provide more opportunities for the healthcare sector. Nevertheless, the

the Democrats will have a majority in the Congress, and one might argue for a Republican president to preserve checks and balances. So we are again left with a draw. Nevertheless, people should vote on more than just their own parochial interests. Your vote is an intensely personal decision, and you should consider what a candidate will mean not only to staffing but also to the country, as well as what is best to the future of our nation.

Mike Neidle started Optimal Management in 1994 (www.optimal-mgt.com), (650) 655-2190, mentoring staffing owners and managers to maximize sales, profits and company value. He was executive VP for Snelling and other staffing firms, as well as serving as CEO, CFO and marketing director for startups to Fortune 500 corporations. He has an MBA and a chemical engineering undergraduate degree. **SI**