

The Presidential Election and STAFFING

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Michael Neidle

The presidential election is still months away, positions will continue to evolve as needed to win and whatever politicians say they will do, may or may not happen due to Congress and unfolding events. Nevertheless, many of their positions are known and we have set out to see how those positions may impact the staffing industry. Since temporary and contract labor represents 87% of staffing it will be our focus. We have based our analysis on facts and documented statements made by the candidates and their spokesmen, but recognize that a person's vote is a very personal decision.

1. Labor Rights: Labor and staffing of course have very different agendas; and organized labor has not been a champion of temporary and contract labor rights. Although neither candidate has indicated their positions on temporary labor specifically.

President Obama and Democrats are well known to be allied with labor and contributions from organized labor are one of their key funding sources. Obama supports the Employee Free Choice Act and the secret ballot favoring unions.

Governor Romney is against organized labor as demonstrated by his criticism of the United Auto Workers and has called for cutting off funding for the National Labor Relations Board. Given the above, it is likely that Romney would be more favorably disposed to the

staffing industry.

— Advantage Romney

2. Minimum Wage: Employers are using as low a labor component as they can, and higher pay rates would be a problem in our new normal economy as the recovery is too precarious to increase wages right now. Higher pay rates are better for staffing in good times for as pay rates rise, so do our margin dollars and profits. If we keep our prices under control, we can further increase our 13% cost advantage vs. internal employees. Over the last three years temps have gone from 1.6% to 2.3% of the private labor force, due mainly to flat U.S. pay rates vs. China's 17%/year rise.

Obama favored an increase in the federal minimum wage from \$5.15/hour to \$7.25 and is now seeking to increase this to \$9.50/hour and then indexing them to inflation.

Romney says that there is not a need to raise the minimum wage now and favors moderate and predictable changes linked to other growth indicators in the economy, noting that he doesn't like the big wage jumps.

— Advantage Romney

3. Equal Pay: This does not impact staffing as much as the former two items, but equal pay is probably

a net gain for staffing as a modest increase in the blended average of higher pay rates will help as noted above.

Obama strongly favors the concept of equal gender pay. He opposes initiatives, which would roll back opportunity for Americans and



cripple efforts to break down historic barriers to the progress of qualified women and minorities.

Romney supports equal pay for women, but stopped short of saying whether he backs the Senate bill. He has finessed the issue by noting that in order to have pay equality, women need to have jobs first and have lost more jobs than men and notes he will have a pro-jobs business climate that will put all Americans back to work.

— Advantage Obama

4. Healthcare: No issue has been as hotly contested as this and activated the bases of both parties while little is known about the details and most of the program have not been fully implemented yet. Certainly no one wants to pay more taxes but here is our perspective.

Obama's healthcare plan was upheld by the Supreme Court on tax grounds. Staffing companies will nevertheless maintain the lion share of their 13% cost advantage over corporate employees. Smaller staffing firms will even do better than larger ones. All staffing companies will have a 7-18% healthcare cost advantage over corporations, as it will cost the former from \$800-\$2,000 who will pay a healthcare temp tax vs. \$11,000 for corporations providing healthcare coverage to their employees. On the direct hire side, it will allow employees to change jobs more freely.

Romney of course has reversed his course after creating a similar law as Governor of Massachusetts and is now against the law and says he will repeal it as President. He also said that he would want to retain some of the best features, including the individual responsibility for getting insurance, but did not release specific details.

— Advantage Obama

5. Taxation: The impact on corporate taxes of either nominee's tax plan like most other positions is likely to be less than advertised as Congress will craft legislation favorable to various special interest groups, as always. Throughout Presidential history, one had to find common ground and compromise particularly when we need to get through difficult times. Given our unprecedented combination of sluggish growth, the Euro crisis, the most severe recession in recent memory and escalating deficits that threaten our financial system, finding common ground on taxation and reducing the deficit should take precedence over ideological differences to achieve political gain. Balancing the budget is one of the most important issues facing long-term growth and our economy. Proper tax legislation and

spending cuts must both be part of the solution.

Obama's plan for the top corporate tax rate would fall from 35% to 28% and limit certain deductions. Capital gains would rise from 15% to 20%. Estate tax now at 35% and set to rise between 45% and 55%. Staffing company executives earning over \$250,000 would see their marginal tax rate (the amount over \$250,000) go from 35.0% to 39.6%. Dividend rates and long-term capital gains would go from 15% to 20% for top earners. His tax plan is projected to bring in an additional \$65 billion next year and \$700 billion over the next 10 years. Obama favors a \$3,000 tax credit to businesses for new full-time employees hired, which would work against temps.



Romney signed the Americans for Tax Reform, pledging no new or tax increases. As a Governor, to balance the state budget, he raised taxes and fees. He has since favored eliminating any taxes related to capital gains or other investments on all who make less than \$200,000 per year and remain at 15% for all others. Like all Republican nominees he would not approve \$1 in higher taxes for \$10 in spending cuts, which will make finding a solution rather difficult. He would eliminate the estate tax. His top corporate tax rate would stay at 28%. He proposes reining in entitlement programs, opposes Tax Relief, Unemployment Insurance Reauthorization, the Job Creation Act of 2010 and said the Simpson-Bowles tax package would add to the defi-

cit. He announced plans to increase taxes on people who own multiple homes, such as himself. In 2012 one of his spokesmen said he would increase taxes and reduce benefits for the wealthy; similar to Obama's policies.

— Advantage Obama

6. The Deficit and Jobs: The deficit and jobs are intertwined and as the deficit worsens people cut back on spending and when people don't have jobs they can't spend. With sluggish private growth, low consumer confidence and private corporations sitting on \$2 trillion in cash due to lack of demand, further government stimulus seems out of the question and both candidates are loath to dealing with entitlements in a meaningful way over at least the next decade. This provides too long an exposure. Our official deficit is \$16 trillion or greater than our GDP, with unfunded obligations ballooning as much as 10 fold when one adds off balance sheet obligations from domestic obligations and not registering that fact that they have underwritten 1/3rd of the world's precarious debt obligations. So we find ourselves in a catch 22 situation where we have over committed ourselves and need to bring down debt while needing more jobs to grow our way out of this quandary. All while Washington can't agree on a prescription. The unemployment peaked almost three years ago at 10% and now has stagnated just over 8%. The GDP growth initially peaked a 3.7% and is now running at some 2% and the chairman of the FED said this was not likely to change any time soon.

Obama's job stimulus package is generally conceded to have helped avoid an even deeper recession, but that option has run its course and we are stalemated on further actions other than working under a Presidential decree, while he has been reluctant to use.

Romney has opposed the stimulus plan and has signed the Norquist no tax pledge, where any increase in the federal debt ceiling would have to be matched by cuts in spending and has opposed the debt ceiling deal struck by President Obama and congressional leaders. He has

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said he will put people back to work but without providing details. Since it is likely that the House will remain in Republican hands and the Senate is a toss up, in order to reduce the chances of continued gridlock, restructuring is required and one may want to gamble on one party rule to accomplish this, but the inherent risk of not having checks and balances, with a Supreme Court leaning Republican may be even a larger risk to take.

— Advantage Obama

7. Lobbying and Campaign

Finance: Washington has become a revolving door of insiders of both parties becoming lobbyists and corrupting the system and the Citizens United case makes campaign limits a dead issue. The problem from a staffing standpoint is that large corporations, organized labor and wealthy individual donors can dwarf whatever influence staffing can generate at the Presidential level. Sometimes our views coincide,

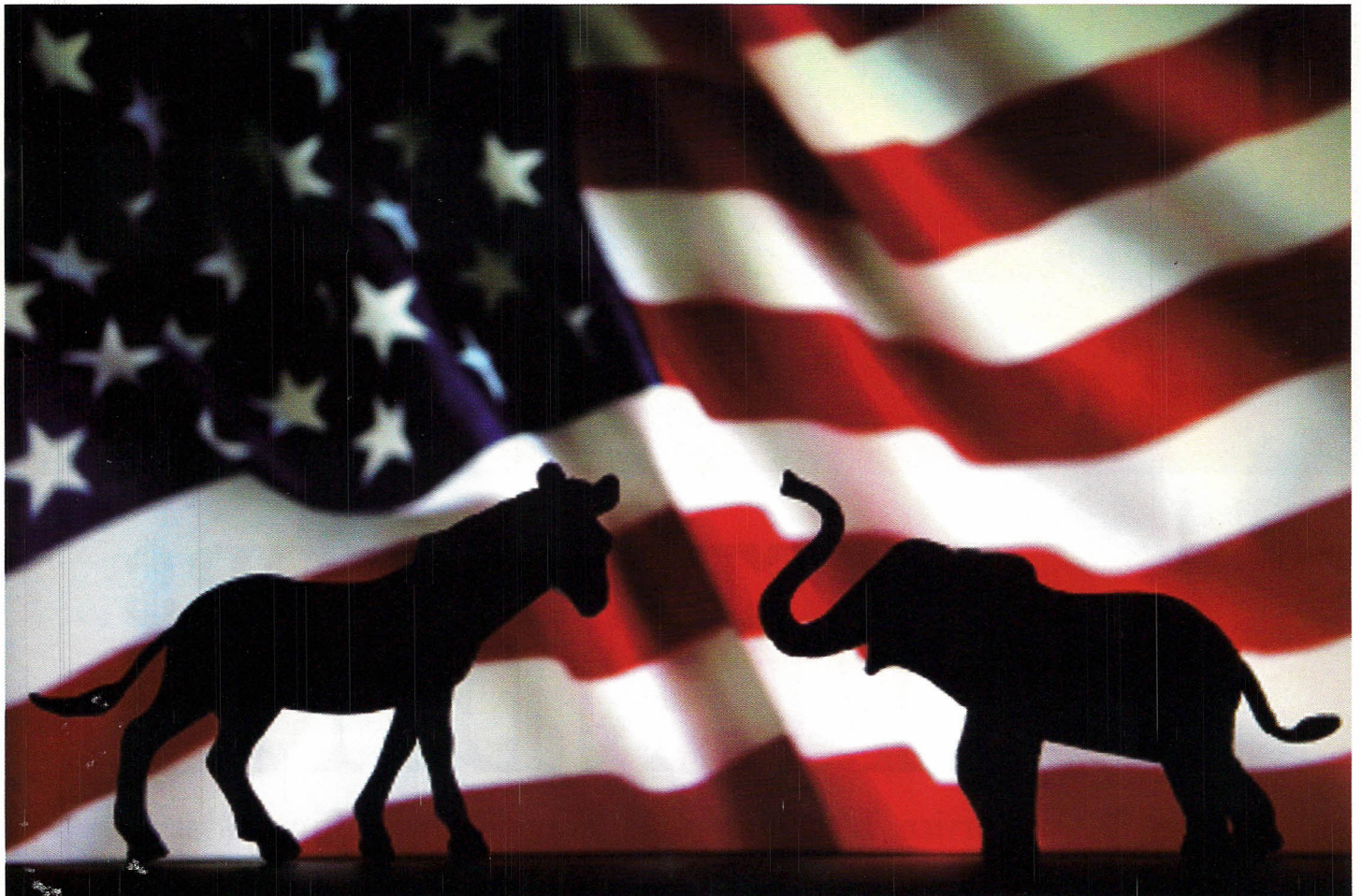
but often they do not. Certainly unions generally are not on the same page as us, individuals are a wild card and while corporations agree with us on things like taxes and reducing expensive regulations on compliance, they do not agree on such issues like outsourcing, commoditization of staffing and automation.

Obama has spoken out numerous times against the undue influence of lobbying, but relies on campaign financing as corporations always hedge their bets and he has his own cadre of wealthy donors. He takes from business interests an estimated 1/4th to 1/3rd of their donations, while Romney takes in the rest. Neither candidate will not likely have enough money to get their message out, particularly in battleground states.

Romney had favored reducing the role of money, wanting more transparency and reducing the influence of special interests groups. This is inconsistent with his actions.

— Advantage Obama

8. Immigration: The importance of Immigration to the staffing industry can not be overstated. For IT and engineering in particular (representing over 31% of our contingent workforce) and is the lifeblood of the high tech industry. Without immigrants (particularly from the Far East) Silicon Valley which is the U.S. engine for growth would be a silicon dune. Only 13% of immigrants come here as a result of their specific talents and work opportunities and the number of H-1B visas granted has dropped in half over the past decade, vs. 2/3rd accepted for family unification reasons. Half of our high tech PhD's are awarded to foreigners and the vast majority are leaving the U.S. as a result of this policy. Canada, Australia and Singapore for example have taken advantage of our policy and now have a higher percentage of foreign born workers becoming citizens in their population than we do. We have 3.7 million openings that are not filled, mainly in science related fields due to a lack of having the proper skill set. This in an effort to secure



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our boarders due to homeland security and welfare costs, while Mexican immigration has declined dramatically due to our economy. China and India are actively wooing back our best graduates. Those who are turned away create new companies abroad along with those jobs that could have been done here. Furthermore as the intellectual capital and associated manufacturing production and know how reaches critical mass our long-term competitive advantage goes with it.

Obama recently stopped deporting children of illegal immigrants if they met certain criteria by Presidential decree and favors the Bush Administration Comprehensive Immigration Reform Act. He said that we have a long way to go to meet our need for skilled workers with Americans, and he supports a temporary increase in the H-1B program until we can reform our immigration system.

Romney was to the right of almost all other Republican aspirants for the nomination. He favors increased legal vs. illegal immigration, supports deportation of illegal immigrants, prioritizes a secure border, employer verification, self-deportation, not subsidizing the education of the children of illegal immigrants and opposes granting amnesty for those here illegally. He wants a biometric card for non-citizens and a national database to reduce illegal immigration. He opposes the Dream Act and supported Arizona's controversial immigration law, struck down by the Supreme Court. He would make it easier for foreign college graduates with advanced high tech degrees to work in the U.S. and increase the number of visas for those with advanced degrees who have job offers from U.S. companies as long as they would not displace unemployed Americans to fill these jobs where an acute shortage existed.

— Advantage Obama

9. Trade: Exports represent 14% of our GDP and this is not inconsequential to staffing. Due to worldwide integrated operations and supply chain, many companies

find it not so easy to disengage. The net benefits are very difficult to weigh and among other things this makes conflict between countries that critically rely on each other economically to become belligerents. As a result, free trade helps staffing and any talk of sanctions is likely to be just electioneering and not likely to go anywhere.

Obama has been critical of NAFTA in the past, but recently signed the nation's largest free-trade agreement with South Korea, Colombia and Panama. Labor unions have been skeptical of the trade pacts and are protectionists at heart.

Romney has campaigned on free and fair trade and has said that America must ensure free trade to strengthen and grow our economy. He says he supports tougher negotiations with China to eliminate the Trade Deficit and is willing to impose tariffs and sanctions for trade abuses, although this is not likely to pass.

— Advantage Romney

10. Technology and Education: The US has seen erosion in our position in the world with respect to education, technology and general competitiveness. This has been reflected in part to our immigration policy. For staffing to continue to grow these two areas must receive the proper attention of our leaders. In the critical area of broadband for example, we are way behind others as government funding is now limited even though government seed money has in general been a good investment.

Obama wanted to out-educate and out-innovate other countries using technology and investments to spur job growth. The current economic climate and political gridlock makes this very difficult. He invested in various emerging technologies like solar energy and he sometimes bet on the wrong horse, he went against others and funded GM and Chrysler and won big.

Romney wants government to invest more in technologies, and like Obama, this includes emerging technologies and basic science. He

supports rewarding teachers based on results and to his credit opposing dogma to not teach creationism, is against public schools endorsing a faith that may alienate others and supports "No Child Left Behind." He has dismissed class size as impacting results, but given the economy this may not be an option anyway.

— Advantage Obama

11. Energy and the Environment: There is no free lunch, one can't get cheap energy without some environmental risks. If it is done right, however environmental risks can be mitigated. Given the Exxon Valdez, the Deep Water Horizon, etc. one can't cut corners and the government has abdicated its oversight role. Nevertheless, if we are to grow our way out of this economy, low cost energy must play a role as we are now becoming the low cost energy producer which we must leverage.

Obama has been in the right place at the right time. Last year, we imported 45% of our oil vs. 57% in 2008 due to new technologies and are scheduled to increase fuel efficiency 2X to 54.5 miles/gallon by 2025. Yet letting BP handle the oil spill was an error.

Romney says his positions are still evolving. He supports more drilling, but not higher mileage standards without further tradeoffs. He opposes unilateral change policy of the United States. U.S. global warming policy and will not protect jobs that kill people, but purports that emissions aren't harmful. He believes humans contribute to climate change, but is uncertain how much and will not spend trillions if it eliminates jobs. As cause and effect become more obvious, his evolution may be complete with the election behind him.

— Advantage Romney

12. Intangibles: We have two candidates who are somewhat flawed and neither one currently has the support of a majority of the people. We are in a period where leadership is required, but we have gridlock

and little is getting accomplished with a dysfunctional government.

Obama was elected as a result of the disastrous financial condition the country was in. He expressed a vision for change but has not been able to reach a compromise and wasted valuable political capital in trying to do so.

Romney has been called the etch-a-sketch candidate due to his changing positions over the last few years, but change need not be a

negative trait and he has been able to cobble together a disparate coalition. His business experience would make him a more natural choice for the staffing industry.

— Advantage Romney

SUMMARY:

It's a draw: Romney 6, Obama 6 ■

Mike Neidle is president of Optimal Management Inc., started in 1994 (www.optimal-mgt.com), (650) 655-2190, mentoring staffing owners and managers to maximize sales, profits and company value. He was senior, executive VP for two national staffing firms; CEO, CFO, director of planning/M&A and marketing director from start-ups to Fortune 500 corporations. He has an MBA and a chemical engineering undergraduate.