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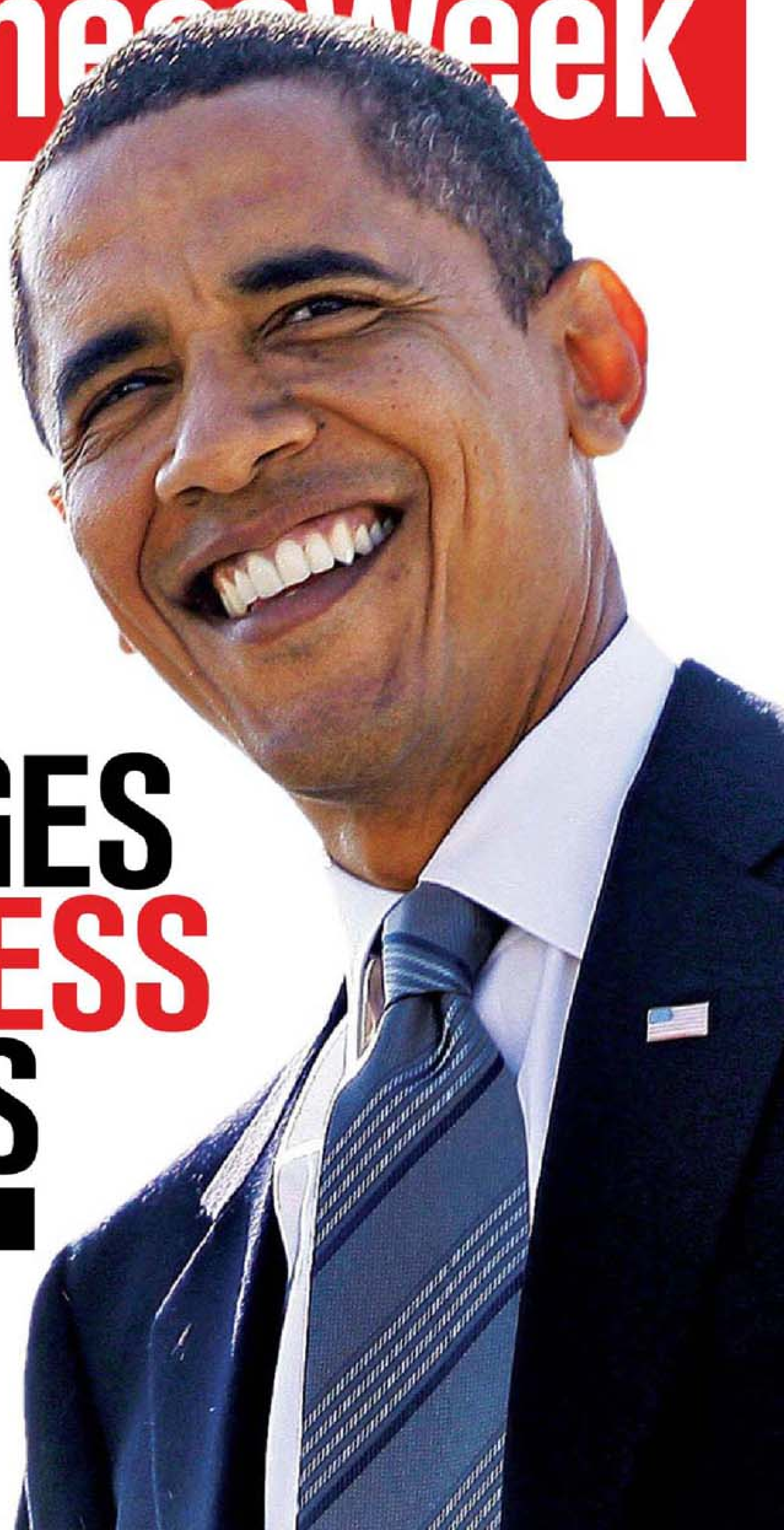
BusinessWeek



STIMULUS

ENERGY

TAXES

TRADE

HEALTH CARE

THE CHANGES BUSINESS WANTS

BusinessWeek

CONTENTS 007

More than anything, unhappiness with the economy sealed an Obama victory

THE CHANGES BUSINESS WANTS

Barack Obama has an agenda for America—but so does business. Its issues include stimulus, trade, taxes, and health care. Where do those agendas intersect, and where do they diverge? BW

PAGE 024

(COVER) DOUG MILLS/NEW YORK TIMES/REDUX; (ABOVE) RON HAVIV/VII

EDITED BY HARRY MAURER & CRISTINA LINDBLAD

AN ELECTORAL LANDSLIDE FOR OBAMA. NOW WHAT?

Obama and family on election night in Chicago after a long two years

He almost made it look easy—two years of relentless campaigning, culminating in a lopsided win by the first African American to ascend to the White House. Now the question becomes whether **Senator Barack Obama** can bring the same ethereal discipline, cool, and political skill to governing a nation staggered by the economic crisis. He'll enjoy expanded Democratic majorities in both houses of Congress—though not a filibuster-proof margin in the Senate—which should help him move fast on pressing priorities, from reshaping financial regulation to fixing health care. As Republicans started to regroup, congressional Democrats planned a stimulus bill and a possible lame-duck session. Obama's team was expected to put forward nominees for Treasury Secretary and other key positions well ahead of the Jan. 20 Inauguration, some within days. And speed may be of the essence: While the Dow jumped 305 points on Election Day, it sank by 486 points, or 5.1%, on the morrow, as traders once again focused on grim economic news.

| BW | PAGE 024 "The Changes Business Wants"

GARY HERSHORN/REUTERS

CAR SALES CRASH

Exhibit A in recession-land: Detroit. U.S. auto sales slid deeper into a ditch in October, down 32%, to an annualized rate of just 10.7 million vehicles, the slowest pace in more than 20 years. **General Motors** got banged up the worst, with sales plummeting 45%. GM had been aggressively lobbying the Bush Administration for a federal bailout to help it buy **Chrysler,** but the feds said no. Meanwhile, its lender, **GMAC Financial Services,** reported that it lost \$2.5 billion in the third quarter, \$900 million more than last year.

"Auto Sales Worst Since 1983"
businessweek.com/magazine

THE RESCUE MORPHS

So you're not a big bank, or even a midsize bank, but you want a chunk of that juicy \$700 billion bailout? No problem! *The Wall Street Journal* said on Nov. 4 that the **Treasury Dept.** may expand the list of worthies to include bond insurers and other nonbank lenders such as **General Electric.** Since the rescue was enacted on Oct. 3, **Treasury Secretary Henry Paulson** has set aside \$250 billion to pump directly into financial houses. Some \$163 billion of that has already gone to big banks. One such, **JPMorgan Chase,** said on Oct. 31 that it is imposing a 90-day moratorium on home foreclosures and will renegotiate loans for 400,000 borrowers.

BUYING INTO BARCLAYS

Rack up another score for Mideast oil money. On Oct. 31, Barclays announced an \$11.6 billion refinancing package that will give Persian Gulf investors a 31% stake in the British bank. **Sheikh Mansour Bin Zayed Al Nahyan,** a member of **Abu Dhabi's** royal family, will invest \$5.6 billion, and two funds from **Qatar** will shell out a combined \$3.7 billion. The remaining \$2.3 billion will come from existing shareholders. Thus, Barclays becomes one of the few domestic banks to avoid asking London for a bailout.

MORE LOAN TROUBLES?

The **Federal Home Loan Bank System** isn't as con-

MANUFACTURING FREE FALL

*A reading above 50 indicates that manufacturing activity is expanding; below 50 denotes a contraction

Data: Institute for Supply Management

CHART BY DAVID FOSTER

84%

Share of banks in the U.S. that have tightened terms on loans to large and midsize companies, according to the latest survey of loan officers.

Data: Federal Reserve

troversial as its cousins, **Fannie Mae** and **Freddie Mac.** But like them it occupies a gray area between the public and private sectors. Its 12 member banks have a public mission to lend money to support home buying, but they are private, profit-making outfits. Since they aren't fully disciplined by either the market or Washington, there's a risk that they're lending billions to shaky borrowers. Their outstanding loans as of mid-2008 hit more than $900 billion.

BW | PAGE 057 "Too Much Like Freddie and Fannie?"

GOOGLE RETREATS

Trench warfare with the Justice Dept.? Not worth it. That's what **Google** concluded on Nov. 5, when it publicly gave up on its proposed search advertising accord with rival **Yahoo!** The move came days after Google offered major concessions in the deal, under which Yahoo would have run Google search ads on its pages in return for up to $800 million in annual payments. Yahoo is now left with few options to recharge its growth and appease angry investors. Then why did its shares rise 4% that day? Because traders figure **Microsoft** might revive its buyout offer.

"Google Ends Search Advertising Deal with Yahoo"
businessweek.com/magazine

WHITE-SPACE CONFLICT

Airwave allocations don't usually set off a public firestorm, but this one sure did. On Nov. 4 the **FCC** unanimously O.K.'d the free public use of a vast swath of airwaves—which could usher in a new generation of wireless Net devices. The decision, involving so-called white spaces, pitted companies such as **Google, Hewlett-Packard,** and **Microsoft** against a coalition that included TV broadcasters, sports franchises, and pop music stars, who argued that new uses of the frequencies would interfere with TV and other signals. The tech giants said they need the more powerful white-space spectrum to provide faster and cheaper Web access than that offered by Wi-Fi.

"FCC Opens New Airwaves to the Public"
businessweek.com/magazine

Redstone had to unload stock in his holding company to meet loan covenants

REDSTONE'S BLUES

On Nov. 3 media conglomerate **Viacom** reported that its third-quarter profit fell 37% from last year, but that seems the least of **Sumner Redstone's** worries. The 85-year-old billionaire, who controls Viacom and **CBS,** has until Dec. 19 to refinance an $800 million **Bank of America** credit line and last month was forced to unload $233 million worth of stock of his holding company, **National Amusements,** to avoid violating the loan's covenants. Redstone hints he might sell off a few of his 1,500 theaters, but Wall Street insiders think that with theaters unlikely to fetch a hefty price, he may have to unload more stock or offer preferred shares for a minority stake in National Amusements.

"Sumner Redstone's Investments Face Mortal Kombat"
businessweek.com/magazine

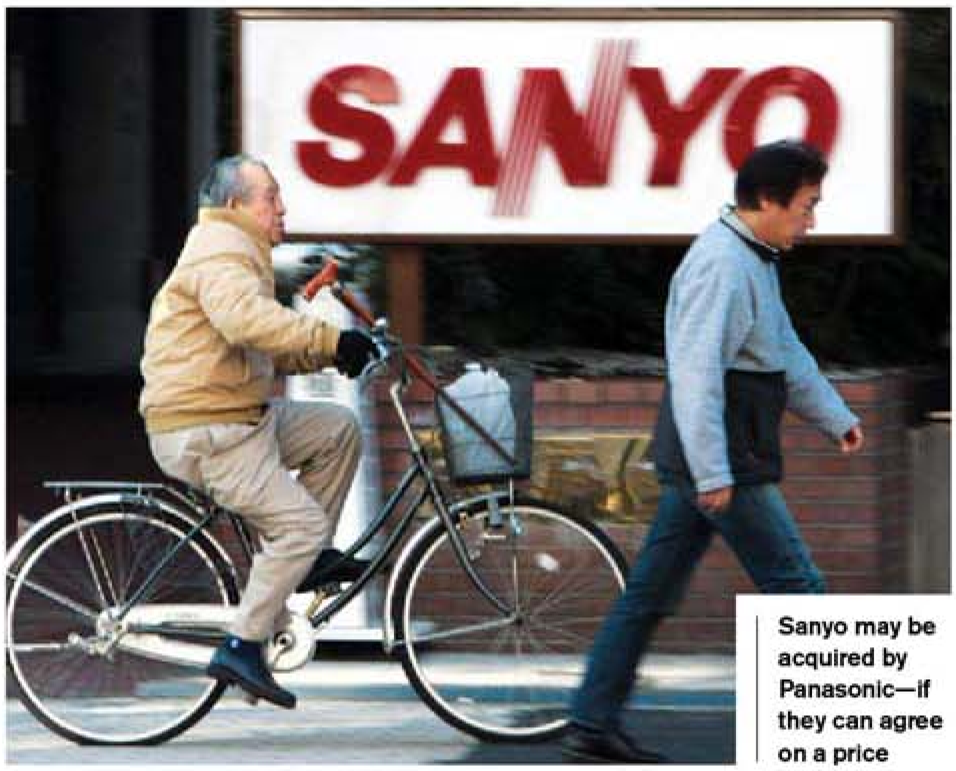
GIZMO WARS

Best Buy continues to best its consumer-electronics rivals, gaining market share as they fizzle. **Circuit City** said on Nov. 3 it will zap 155 stores, or 20% of its chain, and lay off 17% of its workforce. Wary shoppers who are spending less on pricey gadgets hurt the retailer and its vendors, which have also struggled to get credit in recent months. Meanwhile, **Tweeter,** the upscale electronics outfit based in Canton, Mass., plans to

Struggling Circuit City will shutter 155 stores and lay off 17% of its workforce

(FROM TOP) HECTOR MATA/AFP/GETTY IMAGES; MARIANNA DAY MASSEY/ZUMA PRESS

012 NEWS YOU NEED TO KNOW



Sanyo may be acquired by Panasonic—if they can agree on a price

shut its remaining 94 stores and liquidate the merchandise, *The Boston Globe* reported on Nov. 3.

THE REPO MAN COMETH

Another high-flying mogul has had his wings clipped—this time in India. **Vijay Mallya,** who made his fortune in beer and spirits, is in danger of losing some of the planes his **Kingfisher Airlines** leased from **GE Commercial Aviation Services.** The GE unit has threatened to repossess four A320s, saying Kingfisher has defaulted on his lease payments. Kingfisher denies that. But there's no hiding the fact that the carrier, like the rest of India's aviation sector, is being buffeted by high fuel prices and fierce fare wars.
The Economic Times of India

ADIOS, iPOD DADDY

On Election Day, **Apple** said **Tony Fadell,** considered by some "the father of the iPod" for his large role in designing it, would be replaced by 26-year **IBM** veteran **Mark Papermaster** as head of iPod and iPhone development. The exit of Fadell, who will still be listed as an adviser to **Steve Jobs,** highlights a concern about Apple's progress in grooming CEO-caliber executives who could one day replace Jobs. But IBM was irked that one of its top engineering managers jumped ship. Big Blue is suing Papermaster for violating the noncompete clause in his contract. Fadell's wife, Apple human resources **Vice-President Danielle Lambert,** is also leaving.
"What Fadell's Departure Means for Apple"
businessweek.com/magazine

PANASONIC IN PURSUIT

Will batteries electrify Panasonic? On Nov. 1, *Nikkei* said the Japanese tech giant, best known for its TVs and digital cameras, aims to buy struggling rival **Sanyo,** the world's top supplier of rechargeable batteries for laptops, mobile phones, and digital cameras. The companies' top executives crafted a deal to create Japan's largest electronics maker but haven't settled on a price yet. Analysts think Panasonic could end up paying nearly $9 billion, mostly to Sanyo's three top investors—**Goldman Sachs, Daiwa Securities SMBC,** and **Sumitomo Mitsui Banking.** It's not just Sanyo's rechargeable batteries for gizmos and gas-electric hybrid cars that Panasonic covets. Sanyo also has a growing solar-energy business, which Panasonic lacks.

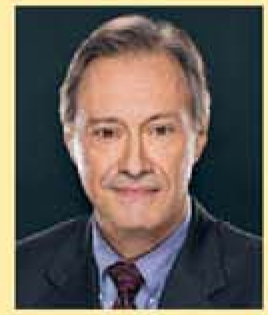
ETHANOL'S TROUBLES

VeraSun Energy, once a shining star of the ethanol boom, ran out of fuel and filed for Chapter 11 on Halloween. One of the top producers of corn ethanol, VeraSun was able to avoid a complete shutdown when a court on Nov. 3 granted $215 million in debtor-in-possession financing. The Sioux City (S.D.) distiller flamed out because of bad bets on corn prices and a shortage of working capital during the credit crunch. Various smaller ethanol players have also gone under this year.

RESTIVE UNIONS

You'd think the global financial crisis would have people fearing for their jobs. Not in Romania, it seems, where public and private workers alike are demanding higher wages and threatening to go on strike, reports the Nov. 11 edition of *BusinessWeek Romania.* Unionized employees of **Nokia** want a 25% salary hike, while those at **ArcelorMittal** are lobbying for 32%. And at **Dacia,** the former state automaker now owned by **Renault,** assembly-line workers say they will ask for a 50% hike. Both Dacia and ArcelorMittal have already cut back production in Romania in response to dwindling demand abroad. So workers at those plants could wind up getting pink slips rather than fatter paychecks.

TOSHIYUKI AIZAWA/BLOOMBERG NEWS



COMPANIES SLAM ON THE BRAKES

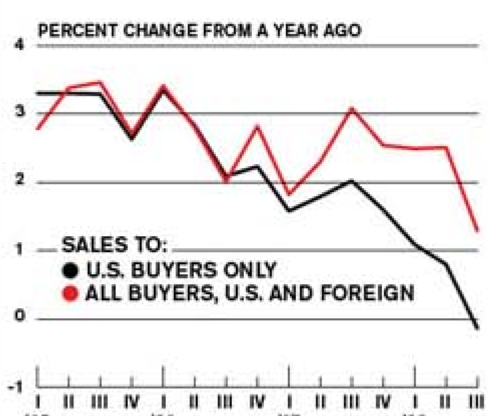
With prospects for demand at home and abroad looking dismal, and funding for expansion growing scarce, big cutbacks and layoffs are in the offing—and soon

Fragile economies are always vulnerable to shocks. This year the U.S. has been hit with two: an oil-related surge in inflation that slammed consumer spending last quarter, and a near-collapse of the financial system that is hammering growth this quarter. The double blow has left American businesses reeling and prospects for growth looking bleak. The speed with which companies, both domestic and foreign, are cutting back is striking. Some forecasters now think the economy could contract as much as 4% this quarter, a shrinkage reminiscent of the severe 1981-82 recession.

The pressures on businesses to pull back on capital spending and hiring are far more intense than they were during the 1990-91 and 2001 recessions. Already, companies have reduced outlays for equipment and software for three quarters in a row. Business construction also has begun to sag in recent months as older projects are completed and plans for new ones are shelved for lack of financing. Companies are certain to step back even more quickly in coming quarters.

Corporate decisions to expand are based largely on perceptions of demand, and right now prospects both at home and abroad are increasingly discouraging. The 0.3% dip in third-quarter real gross domestic product was worse than that top-line number implied. Domestic demand in the U.S. fell a steep 1.8%, led by a plunge in consumer spending. U.S. demand posted its first annual contraction in 17 years (chart), and that downtrend has further to run.

THE GROWING WEAKNESS IN DOMESTIC DEMAND



Data: Bureau of Economic Analysis, IHS Global Insight

Despite cheaper gas, consumers are spending less again this quarter amid tight credit and mounting job losses. October retail surveys were weak. The month's 10.6 million annual rate of car sales was the lowest since 1983 and well below the poor 12.5 million rate averaged in the third quarter. Although a projected 33% drop in the quarterly average of gas prices will add some $140 billion to household buying power this quarter, consumers are more apt to save that windfall than spend it.

The falloff in October business activity was remarkable. The Institute for Supply Management's indexes for both manufacturing and nonmanufacturing fell sharply. The latter hit a record low, while the factory gauge fell to a 26-year low. A majority of the companies surveyed in both sectors said they had been affected by the financial-market turmoil. The plunge in the ISM's index of export orders, also to an all-time low, was especially worrisome for future growth. It suggests exports, the largest single contributor to demand growth this year, are about to cave in under the weight of a global recession and a stronger dollar.

Weak demand isn't the only brake on business expansion. All sources of funding, including profits, debt, and equity, have either dried up or become too costly. Internal funds are shrinking as profits fall. So far in the fourth quarter, the ratio of negative to positive earnings guidance from companies is twice the long-run average, says Thomson Reuters, and the slowdown overseas further worsens the outlook. Over the past year the $81 billion rise in profits from abroad has cushioned the $197 billion drop in domestic earnings. That support will fade next year as domestic profits remain weak.

Even now, the gap between cash flow and capital spending is close to a record, forcing companies to seek external funding at a difficult time. A record 83.6% of banks tightened their lending standards for loans to large and midsize companies early in the fourth quarter, a far more pervasive squeeze than in the past two recessions. In the credit markets, borrowing rates on the bonds of moderately risky, investment-grade firms skyrocketed to 9.5% in late October.

Up till now, the business sector's relatively healthy balance sheet, conservative hiring and expansion in recent years, and well-managed inventories have helped the economy avoid a deep corporate retrenching. But major cutbacks are set to ripple through the economy in a recession that may hit harder than many forecasters had expected. | BW |

BRAD TRENT; CHART BY DAVID FOSTER

NUMBERS

EARNINGS AND DIVIDENDS: THE PRESSURE GROWS

By Tara Kalwarski/Charts by Ray Vella

Earnings and revenues at many global giants are up this year. But profit expectations for the next quarter at S&P 500 companies have been falling, and more are cutting dividends. Adjusted for inflation, earnings per share have gained little over 10 years.

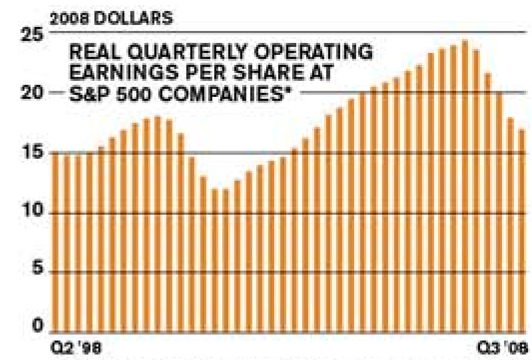
Delivering at the Top: Many large companies worldwide have reported solid third-quarter earnings growth.

COMPANY (COUNTRY)	YEAR-OVER-YEAR GROWTH, Q3 2008* NET EARNINGS	TOTAL REVENUE
BP (Britain)	83%	45%
Volkswagen (Germany)	27%	11%
Industrial & Commercial Bank of China (China)	26%	7%
Royal Dutch Shell (Netherlands)	22%	45%
IBM (U.S.)	20%	5%
Procter & Gamble (U.S.)	9%	9%
AT&T (U.S.)	5%	4%
Microsoft (U.S.)	2%	9%
Grupo Televisa (Mexico)	-14%	18%
General Electric (U.S.)	-22%	11%

Data: Capital IQ

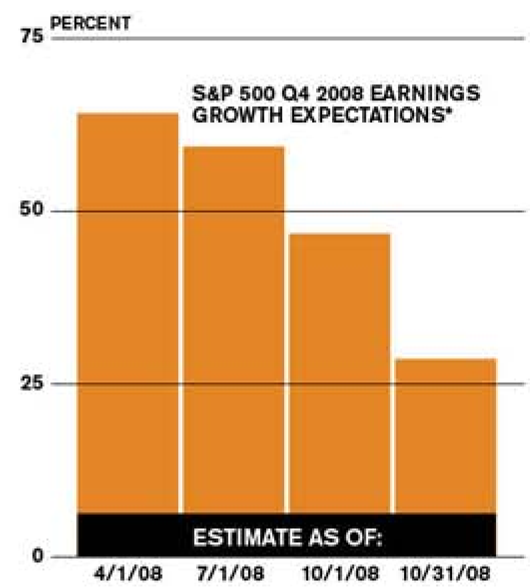
*In reported currency

Real Profits: Inflation-adjusted earnings barely top 1998 levels.



Data: Standard & Poor's *Rolling four-quarter average

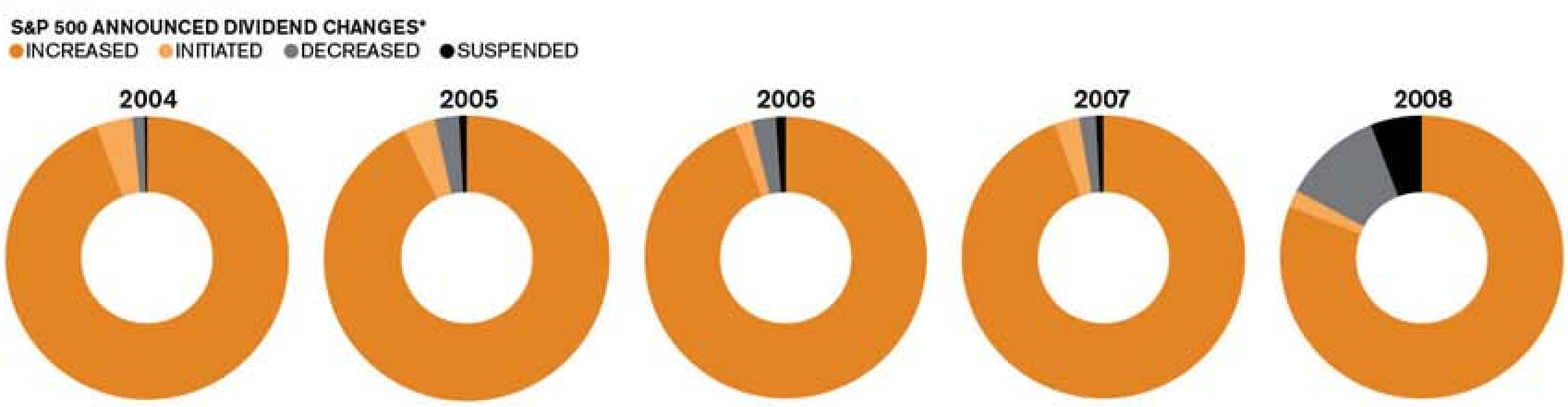
Expectations: Analysts' estimates for Q4 2008 earnings have plunged.



*Based on analysts' consensus
Data: Thomson Reuters

FEWER DIVIDENDS, BUT...

While more companies have decreased or suspended dividends in 2008 than in recent years, the majority still has announced dividend increases.



TOTAL NUMBER OF COMPANIES THAT DECREASED/SUSPENDED DIVIDENDS:

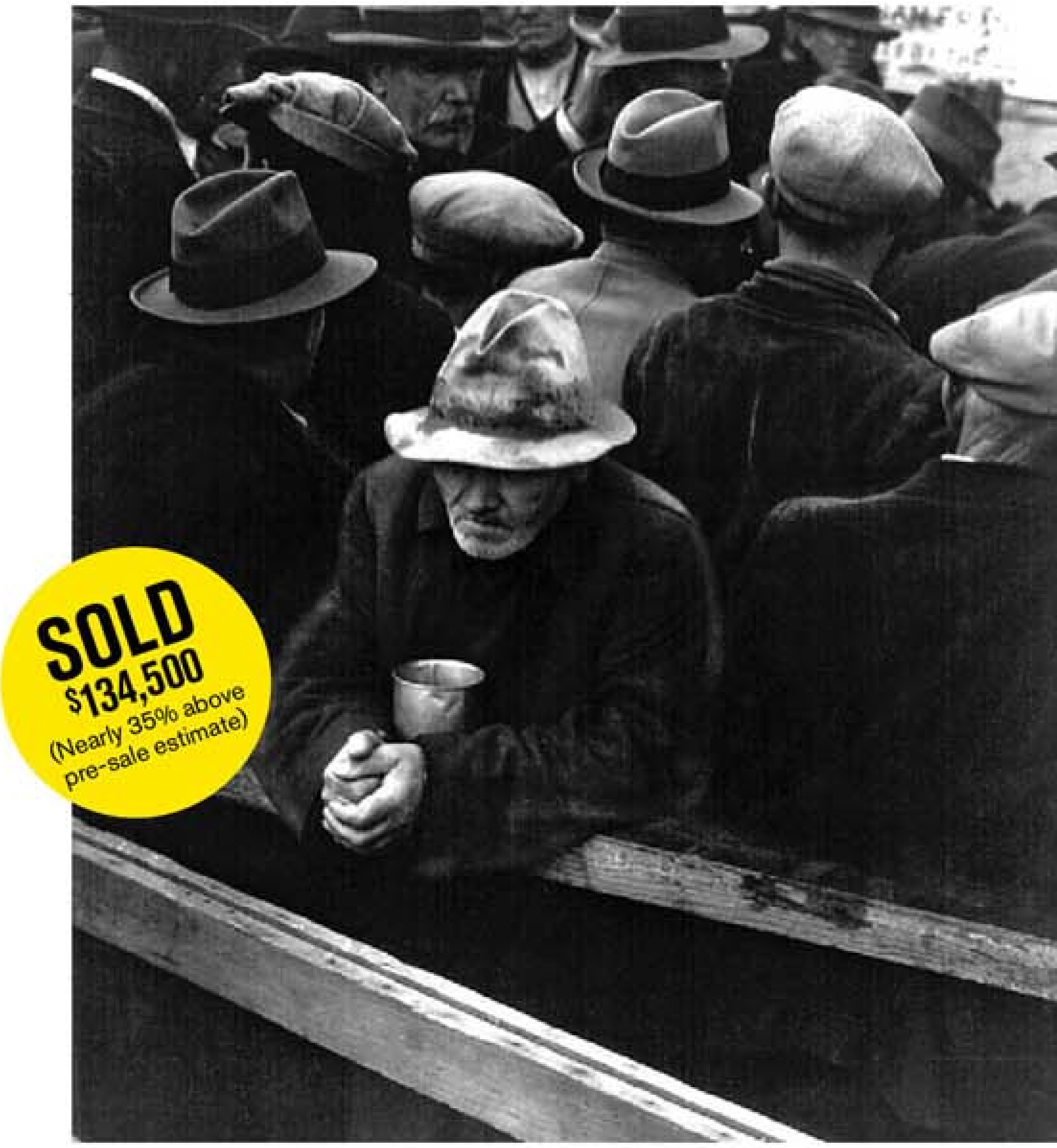
2004	2005	2006	2007	2008
4	10	10	7	45

Data: Standard & Poor's

*Jan. 1 through Oct. 29 for each year

BTW

EDITED BY DEBORAH STEAD



DOROTHEA LANGE/NATIONAL ARCHIVE/NEWSMAKERS/GETTY IMAGES

Sotheby's sold Lange's *White Angel Breadline* on Oct. 14

WHAT'S SELLING? THE GREAT DEPRESSION

With pundit after pundit predicting the worst downturn "since the 1930s," perhaps it was inevitable: The Great Depression is making a cultural comeback, resurrected at social gatherings, on fashion runways, and, perhaps, in the future marketing plans of some companies.

In New York City, twentysomethings are throwing Depression parties, where the clothes are '30s vintage and the playlists favor Big Band numbers and Dust Bowl ballads. Evite, the online party-invitation service, says such bashes are on the rise nationwide (table). Depression fascination, says American Studies professor Bryant Simon of Temple University, makes sense at a time when people may be "looking for authenticity in a highly commercialized society." Maybe so. But the fascination is also moving merchandise. Depression chic has already hit the fashion runways. Organic by John Patrick, a ready-to-wear label, is showing prairie-style cotton-check and hand-spun floral dresses in its spring 2009 collection. Newsboy caps and suspenders are core accessories in the Benjamin Bixby 1930's menswear line designed by André Benjamin (aka rapper André 3000).

There's also a spurt in demand for Depression-era art and literature. Netflix rentals of *The Grapes of Wrath*, the 1940 film adaptation of John Steinbeck's novel, are up. John Kenneth Galbraith's 1955 best-seller, *The Great Crash 1929*, recently climbed to No. 87 on BarnesandNoble.com's sales rankings, up about 20,000 spots from a year ago. And in an otherwise disappointing auction of photo prints at Sotheby's on Oct. 14, Dorothea Lange's *White Angel Breadline* (left) sold for $134,500, well above the presale estimate. While reluctant to ascribe the high bid to an emerging Depression art market, Christopher Mahoney, senior vice-president of Sotheby's photographs department, says there was immense interest in the piece, in part because its subject matter makes it "a key image in the 20th century."

Finally, there's evidence that businesses may be looking to make some hay of their past hard times. Spurred by client requests, The History Factory, a research firm that writes histories for corporations, has just launched a service that may help with that. A typical request, says Bruce Weindruch, the firm's CEO: "'Give me an overview of any products we developed during the Depression.'" What his firm finds, Weindruch says, can be used to reassure employees or woo customers. "We recently informed a major retailer that it had opened a branch on Wall Street in 1932," he says. "That can become fodder for advertising, with the message: 'We didn't abandon you then; we won't abandon you now.'" *–Ellen Gibson*

BULLISH ON THE CRASH OF '29

10%	Rise in Netflix rentals of *The Grapes of Wrath* from September 2008 to October 2008
$134,500	Price at Sotheby's auction for photo print of Dorothea Lange's *White Angel Breadline*; pre-sale estimate: $70,000 to $100,000
87	Oct. 31 sales rank on BarnesandNoble.com of *The Great Crash 1929*, by John Kenneth Galbraith, up about 20,000 places from a year ago.
40	Evite invitations sent nationwide for "Depression parties" in October, up from 3 in September
15%, 65%	Rise, respectively, in customer searches for "hobo" and "F.D.R." on buycostumes.com, from Halloween 2007 to Halloween 2008.

Data: Netflix, Sotheby's; Evite, BuyCostumes.com

ANALYZE THIS

By Kerry Sulkowicz, M.D.

We're hearing a lot these days about the role of emotions in the financial meltdown. Even former Fed chief Alan Greenspan said he "made a mistake in presuming" that rational self-interest would prevail in the markets. But nowhere are psychodynamics more in play than in the hot debate on what Washington's role should be.

Is the government your daddy? In a way. Our widely different reactions to the idea of Washington as problem-solver, disciplinarian, or caretaker—as surrogate parent, in other words—reflect more than ideology. To some extent they reflect our attitudes toward our real (or wished-for) parents.

George Lakoff, a cognitive linguist at the University of California at Berkeley, identified an aspect of this phenomenon in his groundbreaking work some years ago on the "strict father model" of American conservatism and the "nurturant parent model" of American liberalism. But the effect goes beyond these cultural

metaphors (and a historical aversion to Big Government that dates back to our founders). It reaches into the relationships we formed with parents and other authorities. Our early perception of these figures—as benevolent or punitive, welcomed or foisted upon us—can feed into our assessments of government as a fundamentally good force or as basically bad.

Take the issue of dependency. A child who was made to feel ashamed when asking for help may be more likely as an adult to oppose government programs than a kid allowed to feel comfortable in his dependency—or for whom empathy carried a bigger premium at home than self-reliance.

So while nobody relishes paying taxes, those who unconsciously view government as a "good parent" may be more sanguine about forking over money to support federal agencies and programs.

Of course, there's no psychological formula for determining the political attitudes that might arise from parent-child dynamics. Some people do unto others what was done to them as children. Others react by doing the opposite. Finally, there's the tendency we all have just to adopt the stated views of our parents—political and otherwise.

Kerry J. Sulkowicz, M.D., a psychoanalyst and founder of Boswell Group, advises CEOs on psychological aspects of business. Send him questions at analyzethis@businessweek.com.

BOARDWALK BLAHS

Everybody seems to be rolling snake eyes in Atlantic City, even The Donald. September casino revenues are down 15%—the worst slide in the town's 30-year gambling history. Blame the weak economy and competition from newer venues in nearby states. That combination has giant MGM Mirage postponing its planned $5 billion gambling resort and Donald Trump lowering the sale price on his Trump Marina Hotel Casino—from $316 million to $270 million. The Marina's buyer, Coastal Development, plans to turn the property into a Jimmy Buffett-themed Margaritaville casino. Just in case salt shakers and flip-flops aren't enough to boost traffic in town, the city just suspended its recent casino-wide smoking ban so bettors can smoke in designated areas. The ban "was murder," Trump says. *–Christopher Palmeri*

With casino revenues in free fall, the city just backtracked on a smoking ban

ILLUSTRATION BY ROBERT NEUBECKER; PHOTOGRAPH BY CIE STROUD/AP PHOTO

FACETIME | MARIA BARTIROMO

(TOP) BRAD TRENT; (BOTTOM) CHRIS USHER

CHARLIE COOK ON OBAMA AND WHY McCAIN COULDN'T WIN

Ten months ago when I talked with political analyst Charlie Cook in this space, Hillary Clinton had just washed Barack Obama's face in the snows of New Hampshire, and the grueling race for the Democratic nomination had more miles to go than one of Todd Palin's dogsled races. I talked with Charlie again on the day after Obama's smashing victory, and he conceded that he had initially been skeptical that the junior senator from Illinois could prevail. Cook, publisher of the online *Cook Political Report*, a writer for the *National Journal*, and one of the most respected media voices in Washington, now is "in awe" of the organization put together by the rookie Obama. But he also believes John McCain was in large measure defeated by opponents that never appeared at any of the debates: a financial market in free fall and a downright scary economy.

MARIA BARTIROMO
What's your reaction to Obama's victory?

CHARLIE COOK
It was momentous, historic, and all that, but the amazing thing was Obama winning historically Republican states like Florida and Indiana and Ohio and Virginia. And yet the House gains for Democrats were at the very, very low end of expectations, and the Senate gains were not quite as big as expected either. It was a bigger Obama win than it was a Democratic win. That suggests you may have had some new voters coming in and voting for Obama and then not sticking around to vote for other Democrats.

It does keep checks and balances in place, no?
What this means as far as governing is that Obama is going to have to hold on to conservative, moderate Democrats and reach out to moderate Republicans to move legisla-

tion. Temperamentally, I think that's probably his nature anyway, but it's a strategy of necessity now.

"ONE AMERICA IS VERY EXCITED...BUT THERE'S A SECOND AMERICA THAT IS VERY, VERY FEARFUL [OBAMA] IS GOING TO TAX THEM INTO OBLIVION"

Some 63% of voters said the economy was issue No. 1. How does Obama restore confidence?
John Edwards liked to talk about two Americas. And, you know, one America is very excited and hopeful about what Obama may do. But there's a second America that is very, very fearful he is going to tax them into oblivion and that their whole lives will be different. He may never win over that latter group, but he does need to take steps to unite the country and make people accept him, if not approve of him. And the steps he makes in the next few weeks will be critical. For example, does he ask Robert Gates to stay on as Defense Secretary? Does he ask Republican Senator Richard Lugar, the former chairman of the Foreign Relations Committee, to be Secretary of State? Does he come up with a strong economic team immediately and an aggressive program to put people back to work?

What's the smartest thing Obama did?
This is a guy who has been underestimated ever since he first got into the U.S. Senate race in the fall of 2002. But think about the millions of words that have come out of his mouth in the last two years, and yet only once—at a closed-door fund-raising reception in San Francisco—was there really a misstep. Even some of the top people from the Bush 2004 campaign marvel at how amazing this organizational effort was—the focus, the discipline, the lack of infighting and backbiting that you saw in the Clinton and McCain camps.

Are there management lessons to be learned here from his campaign?
The one thing that struck me was the loyalty from top to bottom. You never heard criticism of him from his people, and he was never critical of them. That's why his campaign had virtually no leaks and whatever infighting there was stayed behind closed doors. They did not air their laundry in public.

Politico.com says $5.3 billion was spent on this election. How significant was Obama's cash advantage?
Somebody said Obama spent roughly as much on ads as Geico spends in a year. Clearly having that advantage was important, but more important was the damage the economy inflicted on Republican chances.

Palin was a liability with independents, Cook says

JEWEL SAMAD/AFP/GETTY IMAGES

Is the Red-Blue divide over? Looking at an electoral map, it seems alive and well.
Oh, it's alive and well. It just shifted around a little bit. Take Indiana, for example. It's a manufacturing-dependent state, so it's logical to think enormous economic fears affected the voting pattern. Places like Virginia are more about people moving in from other parts of the country and changing the complexion of the electorate.

How does Obama's margin of victory stack up ?
Well, six points is a very, very healthy win, but it's not a landslide. Still, he was the first Democrat to get more than 51% since Lyndon Johnson in '64. I'm not sure that under the circumstances he could have won a landslide. The wind wasn't completely at his back. He was the first African American nominee, and he'd been in the Senate less than four years.

What was McCain's worst misstep?
You can second-guess the choice of Sarah Palin, yet it did energize the Republican Party and was sort of a B-12 shot for the McCain campaign. But any move McCain made pales in comparison with the impact of the credit markets seizing up and the stock market plummeting. When the financial markets went into a free fall, that created an environment that was just so toxic that McCain could have had five different running mates and run a completely different campaign and it wouldn't have made any difference. After mid-September, this was an unwinnable race.

Didn't McCain need to make people believe he had his hands around the economy?
Watching McCain was a bit like watching a ballplayer seven or eight years after their prime. In 2000, John McCain was at his optimal performance level. McCain 2.0 was more ideological and very different from the McCain we saw in 2000. He wasn't as effective a campaigner, and he tried to change his brand. | BW |

Maria Bartiromo is the anchor of CNBC's Closing Bell.

THE ELECTION

THE CHANGES BUSINESS WANTS

What would help U.S. companies survive—and thrive

By Jane Sasseen

Photography by Damon Winter

THE NEW YORK TIMES/REDUX

The enormous victory won by Senator Barack Obama in the Presi-dential race came from the backing of voters desperately unhappy with the state of the economy and eager for new direction from the top. ¶ Many in business, though, still view the President-elect with a wary eye. (Perhaps the markets do as well: The Dow dropped more than 400 points the day after Obama's election.) Indeed, if a recent survey by *Chief Executive* magazine is any indication, Obama has his work cut out for him in wooing America's executives. In a survey of 751 CEOs published in October, the magazine found that 74% feared the consequences of an Obama Presidency, vs. just 19% who worried about John McCain assuming the Oval Office. The surveyed executives feared that Obama's emphasis on big government and his plans to hike capital gains taxes on big earners would stifle growth and job creation. They also worried he doesn't understand the links between trade and growth well and that he will not be aggressive enough in solving America's immediate energy crisis.

Obama's backers counter that he has garnered far more support from nationally known business leaders than any previous Democratic Presidential contender—not least of whom is Warren Buffett, the most respected executive in the country, along with Google CEO Eric Schmidt. Penny Pritzker, the Hyatt heiress who was the national finance chair of Obama's campaign, has used her own extensive contacts in the business world to secure C-suite support for Obama. Aides say the strategy, put together with the same meticulous planning as the rest of the campaign, has yielded a network of several hundred business leaders that Obama has increasingly tapped for advice in addition to fund-raising. The CEOs he meets are impressed. "Obama fully understands the importance of investing in people and the ideas and technology they create," says Google's Schmidt.

Business executives and lobbying groups around Washington say that whatever questions or disagreements they might have over the policies Obama is likely to pursue, they are gearing up to work closely with his Administration. Even the staunchly conservative U.S. Chamber of Commerce, which threw its weight heavily behind numerous Republican congressional candidates in the hopes they could help keep the Democratic majorities in check, is sounding a conciliatory note these days. "We're always concerned when a new President comes in, but the business community is a uniquely practical constituency," says R. Bruce Josten, the Chamber's top lobbyist. "We may lose some more battles than we would have gotten in recent years," he adds. "But they're in charge now."

In charge for sure. But now the country—indeed, the world—turns to a new set of questions. Obama takes office facing the most difficult economic challenges since Franklin D. Roosevelt stepped into the White House in the midst of the Great Depression. The Illinois senator campaigned on an ambitious agenda of middle-class tax cuts and a wave of public investment in everything from America's aging infrastructure to the cutting-edge alternative energy research that could someday lessen dependence on foreign oil. At the same time, he has pledged to spend billions fixing the health-care system and making better education available to all.

Yet even as the economy tanked and the financial sector bailout sent the deficit hurtling toward $1 trillion, Obama has offered little insight into how he will accomplish all of those ambitious goals. What are Obama's top economic priorities, and what will he tackle first? How might they change in light of the ever-worsening budget? Will there really be money available to plow into education, health care, and infrastructure—and if so, when will it come?

For American business leaders, answers to those questions aren't just the stuff of idle speculation. How the President-elect and his advisers shift course on the Treasury rescue plan, for example, and how far they go in imposing more stringent regulation on finance and other sectors will play a big role in determining which companies thrive and which struggle in the coming years.

In many ways, the longer-term agenda of business corre-

PHOTO ILLUSTRATION BY SHAKENA THORNTON/BW; PHOTOGRAPHS FROM REUTERS AND GETTY IMAGES sponds with what Obama has laid out. They would like him to focus on the things only government can do to improve competitiveness, train workers, and help U.S.-based companies survive in an increasingly global world—and then get out of the way so that companies can create jobs and flourish. Daniel R. DiMicco, the CEO of Nucor, echoes many executives when he calls for an effort "akin to the Apollo space programs" in those areas that would "change our weaknesses into strengths." That means, above all, a massive effort to rebuild the infrastructure, develop new sources of energy, and train the engineers and skilled laborers who can do that work at home.

CHEERLEADER-IN-CHIEF

But to begin tackling any of the broader issues, Obama must start with the immediate crisis. "The first thing he has to focus on is the economy; it fuels all the social policies that make life as an American great," says Richard H. Anderson, the chief executive officer of Delta Air Lines. Many CEOs think Obama should name a Treasury Secretary and other key economic officials almost immediately, then start work on stimulus measures and other key policy areas. That way he can hit the ground running in January or even earlier.

"THE FIRST PIECE OF ADVICE I WOULD OFFER TO OUR NEXT PRESIDENT IS TO STOP USING 'BUSINESS' AS A DIRTY WORD," SAYS STAPLES' SARGENT

Obama should also be ready to play Cheerleader-in-Chief, especially since inspirational leadership has been sorely lacking out of Washington. "Whatever he can do to restore confidence in the consumer would be phenomenal," says Ron Conway, the managing partner of Angel Investors, an early investor in Google, PayPal, and other tech companies. "A lot of [the problem] is state of mind."

Still, if many business leaders broadly back much of Obama's agenda, concern is also brewing in executive suites. In part, that's fueled by fears of runaway spending by the congressional Democrats that could send the budget even deeper into a hole. "We have got to be mindful of the deficit," warns John J. Castellani, president of the Business Roundtable.

What worries business especially is Obama's populist campaign rhetoric, which often became stridently anti-corporate in tone. Given the Democrats' resounding victory, the business lobby can easily imagine a scenario in which a Democratic Congress lets its zeal for reform go too far. "The first piece of advice I would offer to our next President is to stop using 'business' as a dirty word," says Staples CEO Ronald L. Sargent. Also weighing on many minds is the fear that the need for more regulation in financial services and other sectors could turn into a dense new layer of rules. "No question we are in for some reregulation," says James Turley, CEO of Ernst & Young. "But I hope that we are very thoughtful in how we do it so that we do not squeeze out innovation."

Moreover, despite Obama's shift to a more nuanced stance on trade after winning the primaries, many executives worry that the country could move toward a more protectionist direction. They say that the push for more free-trade pacts will be vital to renewed growth. "The next President has to realize that global trade has been a primary driver—if not the primary driver—of our economic progress, and we cannot get caught in a protectionist web," says Nasdaq boss Robert Greifeld.

One notable irony about CEOs and Obama: When the bosses talk of the President-elect, they often invoke Roosevelt. "We need a very, very strong leader, almost like FDR," says Garo H. Armen, CEO of New York-based Antigenics, a biotech startup. "He needs to put in place an FDR effect," says Dow Chemical Chief Executive Andrew N. Liveris. FDR often antagonized business, but he electrified the nation with his decisiveness. Business executives, like many other Americans, are waiting anxiously to see what FDR effect Barack Obama can produce. |BW|

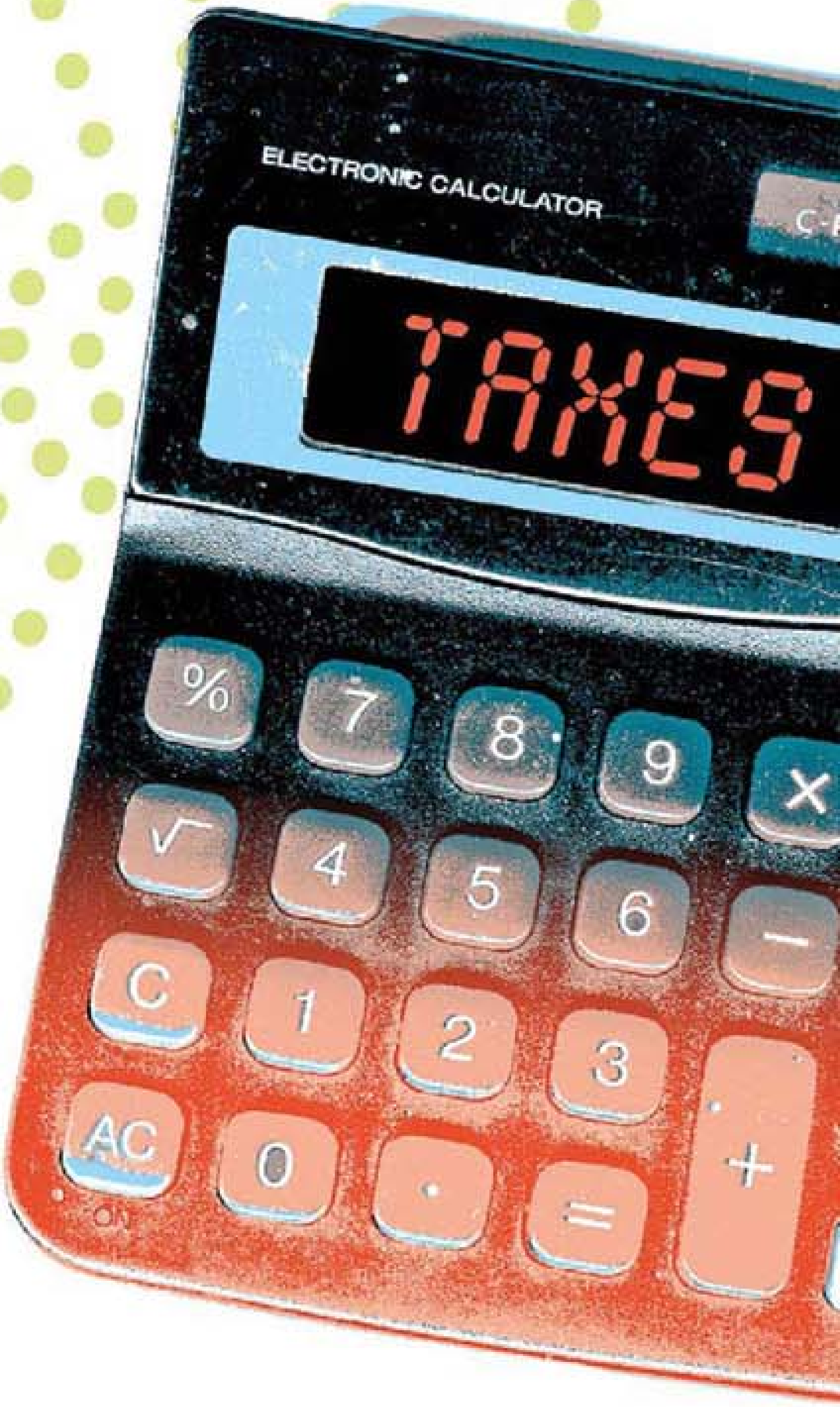
BUSINESSWEEK.COM | *BusinessWeek* asked corporate chiefs what President-elect Obama can do to help business and the economy. For more on how executives from Dow Chemical, salesforce.com, Time Warner, Aetna, and others would set priorities for the new Administration, go to businessweek.com/go/08/change.

TAXES TIME TO FORGE A COMPROMISE

By Jane Sasseen

"We've analyzed the impact [of Obama's proposed plan] on our effective tax rate; it would increase by a pretty healthy percentage. As a result, producing more of our revenue in the U.S. could cost the company, so it means either we'd have to grow faster, which is hard to do in a downturn, or we'd have to cut jobs or relocate jobs overseas just to meet the earnings per share the market is expecting."

–DAVID DEWALT, CEO, McAFEE, A LEADING SUPPLIER OF COMPUTER SECURITY SOFTWARE



WHAT BUSINESS WANTS

American chief executives, whether they sit atop a sprawling multinational or work nights and weekends on a startup, think tax rates on business must be cut sharply. "I hear a lot of 'We're going to tax this, or we're going to tax that,'" says Michael Dell, chief executive of computer maker Dell. "But how do we stay competitive? Jobs don't get created with new taxes."

Dell and others point out that the U.S. corporate tax rate, at 35%, is now second only to Japan's. Over the past decade, countries ranging from Ireland to China have slashed corporate rates and offered up a slew of tax incentives to lure jobs. The U.S. will have to do the same thing or it will continue to see its job base decline, warns William D. Watkins, CEO of disk-drive maker Seagate Technology. He makes no bones about the fact that he takes the best deal he can get. "At the end of the day, how do I make my company stronger?" Watkins asks. "I move all my plants offshore. How long is it before I move all my R&D?"

Of course, most companies don't actually pay 35%. Thanks to a myriad of tax breaks, the actual rates that companies pay can vary widely. But the complexity of the tax system—and the sense that it encourages companies to make decisions based on tax advantages rather than strategic sense—have led to widespread business support for an overhaul of the corporate tax code. Last year, such top executives as Jim Owens, CEO of Caterpillar, and Fred Smith, boss of Federal Express, threw their support behind a proposal by Treasury Secretary Henry Paulson to cut the overall rate as low as 28% in return for an end to many tax breaks. Representative Charles B. Rangel (D-N.Y.), the powerful chairman of the tax-writing House Ways & Means Committee, has floated similar proposals.

Problem is, no one agrees on which tax breaks are reasonable and which are egregious. It's especially hard to reach consensus on the question of taxing income earned overseas by American companies. Currently, the U.S. doesn't tax such profits until the foreign subsidiary transfers the money back home. U.S. companies say that if they had to pay Washington taxes on that income while it was still parked abroad, they wouldn't be able to

LAWMAKERS CAN'T AGREE ON WHICH TAX BREAKS ARE REASONABLE—ESPECIALLY WHEN IT COMES TO KEEPING CORPORATE PROFITS OFFSHORE

(DEWALT) NORM BETTS/BLOOMBERG NEWS; ILLUSTRATION BY ANDY MARTIN

compete in foreign markets where rivals pay lower or no taxes.

But many Democrats want to end the deferral, which they believe encourages companies to shift jobs abroad. Corporate lobbyists already are sounding the alarm. "Ending foreign deferral is a recipe for driving U.S. companies out of foreign markets, where most of the growth lies," says Ed McClellan, a former Republican tax counsel for the Senate Finance Committee who is now with PricewaterhouseCoopers. "It's a big worry for a lot of companies."

Rather than penalize overseas operations, many CEOs say the new President should use tax policy to encourage investment at home. Marijn Dekkers, CEO of instrument maker Thermo Fisher Scientific, believes an Obama Administration should support better incentives to locate new factories in the U.S. And like many entrepreneurs, Rick Warner, head of ParkingCarma, a Flint (Mich.) online startup, thinks taxes on small business should be cut. The U.S. needs "trickle-up financial incentives," he says. "No capital gains tax for small or startup business owners, [including] their investors, up to the first liquidation, sale, or IPO."

WHAT'S LIKELY TO HAPPEN

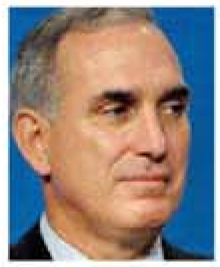
Barack Obama's tax policy is likely both to please and to antagonize companies. Obama wants to use the tax code to encourage more investment at home, but he also vows to end the tax deferral on foreign income. Many Democrats are already eyeing the large pot of revenues that could be raised that way: Treasury estimates that U.S. companies will escape $120 billion in taxes over the next decade by keeping profits offshore. Obama has also talked of ending "tax loopholes" for oil and gas companies, and he proposed a windfall profits tax when gas hit $4 a gallon. Capital gains taxes on small businesses and startups, on the other hand, would be eliminated.

As for an overall cut in corporate rates in exchange for ending tax breaks, Obama has said he's open to the idea. He could take up the issue as part of a broad effort to tackle both corporate and individual rates, as Rangel wants. But after a campaign centered far more on middle-class tax cuts, there's little sign a corporate tax cut is a priority. | BW |

(LEWIS HAY) JENNIFER GRAYLOCK/AP PHOTO; (SOLAR PANEL) MAX WHITTAKER/WPN

ENERGY LAY OUT CLEAR RULES—AND FAST

By John Carey



"America's energy challenge has two main goals: to increase our energy security in a volatile world and to decrease the amount of greenhouse gas we pump into the atmosphere. Fortunately, both challenges have the same solution: putting a price on carbon."

–LEWIS HAY III
CEO, FPL GROUP, A FLORIDA UTILITY

WHAT BUSINESS WANTS

The financial meltdown and plunging oil prices have pushed the energy crisis off plenty of priority lists. But for Michael G. Morris, CEO of American Electric Power, one of the nation's largest electricity generators, it's still front and center. "At $2.30 per gallon of gasoline, many think the energy issue is over," he says. "It is so far from over."

It's more crucial than ever, Morris and many other executives say, for Barack Obama to guide the country down a new energy path. The goals: reducing U.S. dependence on imported oil, making the economy less vulnerable to energy disruptions, modernizing the creaky electricity-transmission system, and tackling global warming. "We are not going to fix the economy over the long term without taking care of energy," says Red Cavaney, longtime president and CEO of the American Petroleum Institute.

Business wants a comprehensive energy plan, and fast. The issue is especially urgent, leaders say, not only because energy prices are expected to rebound once the recession ends but also because companies face difficult multibillion-dollar investment choices. In general, they accept restrictions on carbon emissions—and expect them. But without knowing what the rules will be, how do companies decide whether to build new nuclear or coal-powered plants? Spend more on wind, solar, transmission lines, or efficiency measures? Tool up to make plug-in hybrid cars or construct biofuel factories? Such choices aren't limited to energy companies, since energy costs determine whether or not it will be economically feasible to site a new aluminum plant

Solar—or wind, or nukes? Companies face tough choices in the U.S. or to expand airline routes. Investments could be brilliant or doomed, depending on what Washington does.

It has been enormously frustrating to business that Congress hasn't even been able to take tiny steps with strong bipartisan support, such as extending incentives for wind, solar, and other fossil fuel alternatives in time to prevent disruptions in these industries. Now companies are looking to President-elect Obama to force Washington to act. "The way we made it to the moon was with a strong hand from the executive branch," says Andrew W. Hannah, CEO of Plextronics, a Pittsburgh printer of electronic circuits for solar panels and other devices. "We need to have that voice in the executive office now."

Incentives for wind power are needed

There's remarkable agreement on the general outline of a new energy strategy. It would include efficiency measures such as tougher appliance standards and funding for weatherization of buildings. It would boost all forms of low-carbon-emitting energy, from renewables to nukes and "clean" coal (where CO_2 emissions are captured and stored). It would open up more areas to drilling.

"There's this image that Republicans are just for drilling, and Democrats are just for efficiency and renewables," says Tom Kuhn, president of the Edison Electric Institute, which represents utilities. "We don't have the luxury of picking one or the other. We really need to have it all." Dow Chemical CEO Andrew N. Liveris warns that "other countries are putting in place very, very sound energy policies that include all of those components. Without an energy policy, our industry will continue to build factories [and send] jobs overseas."

The strategy must also explicitly tackle global warming, executives insist, since climate and energy are inextricably linked. Companies need to know how much the government will limit greenhouse gas emissions and how this will affect the cost of fossil fuels. "We must enact mandatory climate legislation, and pass it soon," says John Rowe, CEO of Chicago electricity generator Exelon.

WHAT'S LIKELY TO HAPPEN

There will be action, although fights over the details will be contentious. "This is one issue that, if done well, could be accomplished even in this tough economic environment," says Cal Dooley, president and CEO of the American Chemistry Council. It helps that energy and climate policy increasingly is seen as a way to stimulate the economy. "Clean energy means green jobs," argues Barbara Boxer (D-Calif.), chairman of the Senate Environment and Public Works Committee. Jigar Shah, founder of SunEdison, a solar company in Beltsville, Md., says that if the government led by example and made its own buildings greener, thousands of jobs would be created, and "the net cost could be zero, because it will save so much energy." Fund home energy-efficiency retrofits, mass-transit systems, carbon-capture pilot projects, and other measures, and the nation would see a green recovery, many experts argue.

"The next Administration could easily implement solar, wind, geothermal, and other alternatives for federal energy usage. The federal government is the country's largest energy user. So this alone would provide an extraordinary stimulus to the renewable industry."

–JIGAR SHAH FOUNDER, SUNEDISON

It helps that Obama has made energy a top priority and has a respected group of advisers, led by Jason Grumet, president of the nonprofit Bipartisan Policy Center. Energy proposals in Congress often have sunk due to partisan wrangling. But as executive director of the National Commission on Energy Policy, Grumet oversaw the creation of a bipartisan plan that tackled everything from auto fuel economy to natural gas supplies. In the past few months, Congress itself has taken steps toward a compromise.

Still, hashing out the fine points won't be easy. Industries that depend on natural gas are lobbying to allow drilling on the outer continental shelf closer than 50 miles offshore, which environmentalists oppose. Utilities with nuclear plants want permits to emit carbon to be auctioned, while those with dirtier coal plants insist the permits be given out. Battles simmer over fuel economy rules, requirements that biofuels have low carbon footprints, the number of new nuclear plants, and other issues.

The new President can, however, accomplish a lot through regulation. He can raise efficiency standards, change building codes, and give the Federal Energy Regulatory Commission more authority to get transmission lines built. Grumet has said that Obama is even prepared to regulate greenhouse gas emissions under existing laws. That's fiercely opposed by the U.S. Chamber of Commerce and many companies, who expect to get a better deal in Congress, but the threat will pressure lawmakers to act.

Ultimately, the amount of change will depend on the President's ability to convince Americans that their long-term future depends on an energy transformation. Plextronics' Hannah is hopeful. "Obama truly understands the convergence of technology and energy and how it can drive the economy," he says. |BW|

(TURBINE) TATE MICHAEL DAVIDSON/PHOTODISC/GETTY IMAGES; (JIGAR SHAH) MIKE MCGREGOR

THE ECONOMY POSSIBLE PICKS FOR TEAM OBAMA

By Theo Francis

Obama's first task: building an economic team. His Treasury Secretary choice, expected in a couple of weeks, will set the stage for later selections. The Cabinet "should signal the Administration's priorities and have highly credible people in key jobs," says a veteran of Democratic transitions. There will still be room, though, to reward key campaign advisers.

Treasury

Lead player on fixing the financial crisis; must have the market's confidence without appearing beholden to Wall Street.

Timothy F. Geithner
President of the New York Federal Reserve Bank and ex-Treasury official; the early favorite has been immersed in Wall Street rescue from the start.

Lawrence Summers
Clinton's last Treasury chief, another top contender. But controversy over comments about women scientists while Harvard president may hurt.

Laura Tyson
Former London Business School dean, she ran Clinton's Council of Economic Advisers and National Economic Council (and was a *BusinessWeek* columnist).

Steven Rattner
The private equity investor, former investment banker, and longtime Clinton fund-raiser has become close to Obama's team.

Jon Corzine
New Jersey governor. Pro: Former Goldman Sachs chairman and co-CEO. Con: Would be the third Goldman guy to head Treasury since '92.

Economic Advisers

Key campaign aides could claim coveted White House policy spots.

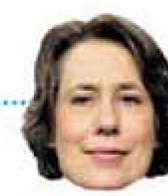
Jason Furman
Senior economic campaign aide and former Clinton staffer. Seen as likely to lead the National Economic Council.

Austan Goolsbee
University of Chicago economist and longtime Obama adviser could end up atop the Council of Economic Advisers.

Housing

Deft policymakers will be needed at the Federal Housing Administration, the Federal Deposit Insurance Corp., and elsewhere to bring an end to the storm.

Douglas Elmendorf
A Robert Rubin protégé and former Treasury official, he pumps out policy advice at Brookings Institution.



Sheila Bair
Early calls on housing crisis by FDIC chairman proved prescient, winning her plaudits from congressional Democrats.

Energy and Environment

Promoting green jobs, energy efficiency, and renewable technologies while reducing climate change will be top priorities at the Energy Dept. and the EPA.

Jason Grumet
Hammered out a bipartisan energy and climate plan while leading the National Commission on Energy Policy.

Kathleen McGinty
Former chair of President Clinton's Council of Environmental Quality, architect of Pennsylvania green policies.

Health Care

Top picks could run Health & Human Services or serve as a White House policy czar.

Tom Daschle
Former Senate Majority Leader and early Obama backer, he recently published a book on reforming health care.

David Cutler
Harvard economist and lead campaign health-care adviser, he shaped the Clinton Administration's failed universal-care proposal.

U.S. Trade Rep

Look for a delicate balancing act to reassure business while placating labor.

Daniel K. Tarullo
Obama campaign trade adviser and international economics specialist in the Clinton Administration.

Kitchen Cabinet

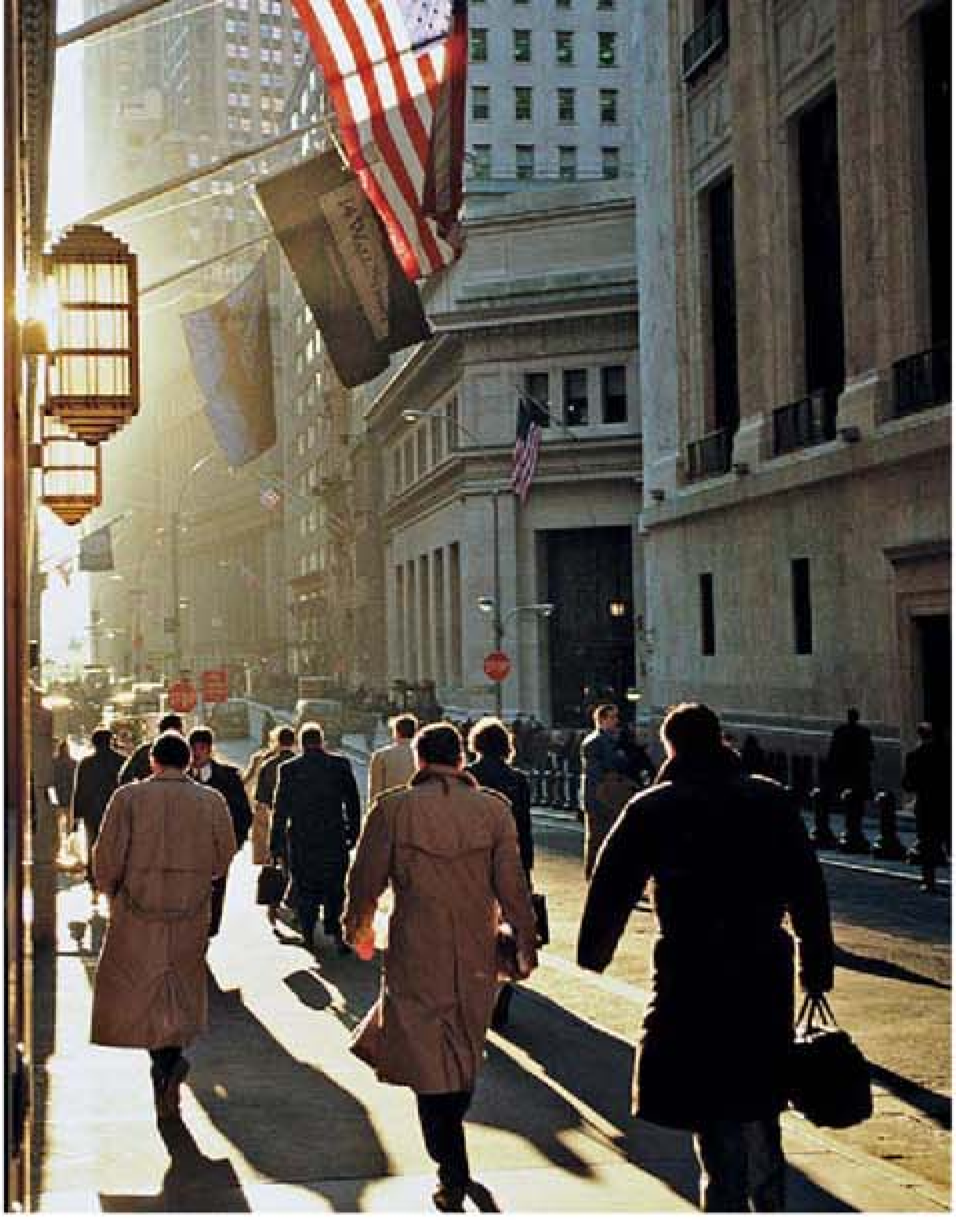
Prominent campaign advisers have been floated as Treasury candidates, but informal roles are more likely. They can also serve as liaisons with Wall Street and the business community.

Paul Volcker
Has Wall Street's respect as Federal Reserve chairman under Carter and Reagan. A veteran recession fighter.

Robert Rubin
Ex-Clinton Treasury head, his links to Citigroup could bring him too close to the financial crisis for an official appointment.

Warren Buffett
The Sage of Omaha and Berkshire Hathaway's CEO isn't likely to want to leave his investing powerhouse.

(GEITHNER) MUNSHI AHMED/BLOOMBERG NEWS; (SUMMERS) LYNN GOLDSMITH/CORBIS; (TYSON) ALAN WELLER/ BLOOMBERG NEWS; (RATTNER) ERIC THAYER/ REUTERS; (CORZINE) DANIEL ACKER/BLOOMBERG NEWS; (FURMAN) KEVIN DIETSCH/UPI PHOTO; (GOOLSBEE) JOHN GRESS/WPN; (BAIR) JAY MALLIN/BLOOMBERG NEWS; (GRUMET) SCOTT J. FERRELL/CONGRESSIONAL QUARTERLY/GETTY IMAGES; (MCGINTY) HO NEW/REUTERS; (DASCHLE) JOSHUA ROBERTS/BLOOMBERG NEWS; (VOLCKER) J CARRIER/BLOOMBERG NEWS; (RUBIN) JASON DECROW/ AP PHOTO; (BUFFETT) MICHAEL BUCKNER/GETTY IMAGES



FINANCE GET CREDIT FLOWING, HEAL HOUSING

By Theo Francis

Wall Street wants action, but fears Obama will do too much

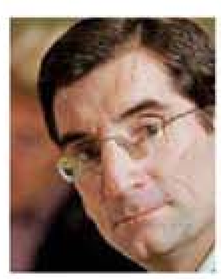
WHAT BUSINESS WANTS

No surprise here: The business community wishes to see a swift end to the global financial crisis that has shaken companies large and small in recent months. The banks get most of the press, but many other corporations have also been pinched, from local commercial developers unable to get credit to motorcycle icon Harley-Davidson, which was burned by subprime loans to bikers.

More than anything, corporate executives yearn for some semblance of calm. "The critical issue is to restore confidence in the economy and stabilize our global financial markets," says Ronald Williams, chief executive officer of health insurer Aetna.

To do that, say business leaders, the Obama Administration must push banks hard to resume lending and find a way to stop the bleeding in the housing market. "Tighter regulation is unavoidable," says Daniel Vasella, CEO of Novartis, the giant Swiss drugmaker.

But executives also stress that Washington must resist the urge to clamp down too hard on the financial sector, which could hurt markets in the long run. In other words, Washington should do just enough to stop the crisis—and nothing more. "It would be a mistake to regulate so strongly as to stifle innovation," warns Ernst & Young CEO James Turley. He hopes Barack Obama will "do everything in his power to see that [intervention] is temporary."



"Financial products have evolved into instruments that are at times indistinguishable. We will never be able to address systemic risk without a regulator that has an overall viewpoint."

– ROBERT GREIFELD CEO, NASDAQ OMX GROUP

Striking the perfect balance is much easier said than done, of course. "It's very tough," says Brian Gardner, a Washington policy analyst at Keefe, Bruyette & Woods. "In this environment, it's very easy for the pendulum to swing too far."

First and foremost, executives want the new Administration to get credit flowing again. Some big banks that received chunks of the $125 billion doled out by the Treasury Dept. on Oct. 14 have appeared to hoard the capital rather than lend it out, and the agency's rules have put few restrictions on how the money is to be used. That could change soon. House Financial Services Committee Chairman Barney Frank (D-Mass.) has already scheduled a hearing to examine the government bailout so far.

In terms of the housing crisis itself, executives outside the financial industry are less concerned about the details of a fix as long as there is one. "The crisis started with the housing sector and it will end there," says Rich Dougherty, CEO of Expert Choice, an Arlington (Va.) software company. "When we resolve the mortgage mess the economy should start moving in the right direction again." Many executives also hope the new Administration will create more transparency in the famously murky derivatives markets, while others are calling for some sort of super-regulator—possibly the Federal Reserve—to watch over all of the big financial institutions.

WHAT'S LIKELY TO HAPPEN

Count on a flurry of activity in 2009. Obama and his advisers know that addressing the financial crisis will dominate at least the first year in office. They're also mindful that if they don't get their response just right, the economy will continue to slump and the rest of their Administration's agenda could be imperiled. While the President-elect has been hesitant to criticize efforts by the Federal Reserve or Treasury Secretary Henry Paulson—with whom he has spoken regularly since the crisis accelerated—Obama clearly thinks more aggressive policies are needed.

On the housing front, Obama has for months backed proposals to provide more extensive aid to struggling homeowners, including a stepped-up government role in pushing lenders and mortgage servicers to renegotiate underwater mortgages. With Treasury and the Federal Deposit Insurance Corp. already hashing out the details of a plan to do

(FROM TOP) DAVID NOTON/GETTY IMAGES; NAJLAH FEANNY/CORBIS

NYSE traders want to see greater liquidity

just that—and the newly strengthened Democratic caucus itching to do likewise—the only questions are the exact form and cost of the coming aid package to homeowners. Obama also has called for a 90-day moratorium on foreclosures.

Perhaps his most ambitious policy stance has been to back calls to change the bankruptcy laws so that home loans can be reduced in court. Currently, mortgage debt is the only type a bankruptcy judge can't modify.

The task will be tricky. If Obama and his allies in Congress move ahead with plans to force such "bankruptcy cramdowns," they'll face a fight from the financial services industry, which isn't eager to see such debts reduced. So far, Republicans have managed to block efforts to change the law. If other moves to stem rising foreclosures start to pay off, the law will probably stand. But if the alternatives don't get much traction, all bets are off.

As for the big government bailout plan, major changes aren't likely, says Christian Weller, a senior fellow at the Center for American Progress. "The facts dictate policy at this point," he says. "All you're going to get is some modification around the edges." Many expect the new Administration to back congressional calls to put more demands on the banks receiving federal funds; the Obama Administration could impose more explicit lending requirements or restrict dividend payments further.

Tougher executive compensation rules are likely as well. Given the public outrage over outsized executive pay, the Democrats could move on controversial proposals to give shareholders more voice on pay packages for all companies, not just those getting federal funds.

Predicting the path of financial market regulation is more difficult. Obama in March gave a little-noticed speech in which he called for greater transparency and a reworking of the financial regulatory structure. Many of those principles are close to those articulated by Paulson in his own blueprint for reform, also issued in March. Both men agreed that there is a need for the Fed or another regulatory agency to have broader oversight powers and that it would be useful to combine overlapping agencies such as the Securities & Exchange Commission and the Commodity Futures Trading Commission. But while all concur on the principles, the details will be the subject of a pitched battle among financial institutions, regulators, and their congressional overseers for much of the next year. | BW |

"What I'd like to see is short-term capital gains taxed at a high level, perhaps even higher than ordinary income. By short-term I mean less than a year. It won't be popular. But I'd like to see a system where long-term investing is rewarded."

– F. WILLIAM McNABB III, CEO, VANGUARD GROUP, WHICH MANAGES MORE THAN $1 TRILLION IN ASSETS

(L TO R) CHRIS ANDERSON/MAGNUM; BRADLEY C. BOWER/BLOOMBERG NEWS

HEALTH CARE IMMEDIATE RELIEF FROM RISING COSTS

By Catherine Arnst

"I think health-care coverage by employers is still the cornerstone of a national health-care plan."

–DEAN SINGLETON, CEO, MEDIANEWS GROUP

WHAT BUSINESS WANTS

Health-care reform is crucial to most U.S. corporations as they recalibrate for an Obama Administration. The reason is obvious: About 60% of Americans receive health insurance through their employer. "We absolutely think it needs to be at the top of the agenda," says Maria Ghazal, director of health public policy for the Business Roundtable.

But for business, extending coverage to the 45.7 million uninsured is secondary to bringing down the cost of care, which adds up to 16% of U.S. gross domestic product and rising. "Our situation is simply not sustainable," says Dr. Robert S. Galvin, director of global health care for General Electric. "After 15 years of cost increases, this is not a 'let it ride' situation."

The cost of insuring employees will increase by almost 7% this year, with no relief in sight. Yet business executives emphatically do not want reforms that would uncouple insurance from employment.

In a 2007 survey of members by the HR Policy Assn., 84% said their company favors maintaining the existing employer-based system, with improvements—just what President-elect Barack Obama is proposing. "Companies know they are going to end up paying the bill somehow or other, so they want to have an influence on how those benefits are designed," says James A. Klein, president of the American Benefits Council, a trade association for employer-based benefit plans.

Obama's health reform proposal does indeed expect business to shoulder the bill, either by covering employees or paying into a new Medicare-like plan that offers affordable coverage to the uninsured. His plan is modeled after Massachusetts' new universal care plan, which was designed with considerable input from the business community. The reality is "that the majority of Americans receive their health insurance benefits from their employer," says WellPoint CEO Angela F. Braly. "We need to focus on [fixing] what is broken, without breaking what works."

Corporate America's own health-care reform efforts have been modest. But in 2007 the coalition Divided We Fail was formed by the AARP, the Business Roundtable, the National Federation of Independent Business, and the Service Employees International Union expressly to push for universal health care. Since then, Divided We Fail has focused on pushing the woefully behind-the-times health sector to embrace information technology.

That would be no small feat. If the new Administration moved toward electronic medical records, "it would improve outcomes and further reduce redundancies and inefficiencies in patient care," says Dr. Steve Sayfer, CEO of Montefiore Medical Center in the Bronx. In fact, it is almost impossible to institute cost-saving measures without computers.

Digital records would yield data to pinpoint cost-effective treatments. Price and quality comparisons between hospitals would be possible. Most important, electronic records could reduce the errors and unnecessary treatments that chew up an estimated one-third of U.S. health-care spending.

Executives fear, however, that health-care reform will fall victim to the financial crisis since little money will be available for big new policy initiatives. As Bristol-Myers Squibb CEO James M. Cornelius says, covering the uninsured is "one more thing that has to be considered in a budget that's already too big. That's why I'm not a politician."

WHAT'S LIKELY TO HAPPEN

Budget crisis or not, Obama has named health-care reform as one of his top domestic priorities, and the electorate agrees. In a national poll conducted by Marist College in October, 78% of voters said the next President should reform the health-care system even if it means a larger national debt.

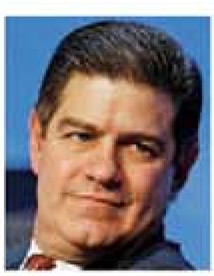
Because Obama has proposed an incremental approach that extends the employer-based system, he is likely to enjoy far more support than President Clinton's more ambitious effort. Still, independent groups estimate that Obama's plan will cost anywhere from \$1.2 trillion to \$1.6 trillion over 10 years, making it a tough sell in the current economy. But health-care policy experts think the odds are good that Obama will get Congress and the public to back at least one of his proposals: a \$50 billion federal investment in health information technology. |BW|

(TOP) SCOTT McKIERNAN/ZUMA PRESS; (BOTTOM) ILLUSTRATION BY ANDY POTTS

Shipping containers at a depot in Newark, N.J.

TRADE RENEW THE DRIVE TO OPEN MARKETS

By Pete Engardio and Steve LeVine



"I hope the government doesn't retrench back into protectionism. I think it would be a colossal mistake for our country."

–JAMES TURLEY, CEO, ERNST & YOUNG

WHAT BUSINESS WANTS

Few issues have become as toxic in Washington as free trade. After the collapse of the Doha Round of global trade talks in 2003, the Bush Administration struck a string of bilateral deals with individual nations. But even those stopped after Congress derailed free trade pacts with Colombia and South Korea.

Business would like to see trade restored to the top of the U.S. agenda—whether the aim is to gain better access to foreign markets or to ensure that existing rules are enforced. Boeing Chief Executive Officer W. James McNerney Jr. notes that exports have accounted for 12% of U.S. gross domestic product last year. "The vast majority of the world's consumers live outside the U.S.," McNerney says. "It is essential to our future growth and prosperity that we stay engaged globally."

A big question is whether Washington should put higher priority on opening new markets or on enforcing rules. Some executives would like to see renewed U.S. diplomacy to lower import barriers abroad. "Anything we can do to help increase U.S. exports would create jobs here in the U.S.," says Jim Goodnight, chief executive officer of Cary (N.C.) software maker SAS. Goodnight doesn't understand why Congress blocked a proposed pact with Colombia. (Charges that Colombia's government has tolerated anti-union violence stymied the pact.) "Colombia is going to take down all of the tariffs they have against us," says Goodnight. "For the life of me, I don't see how anyone can argue that it's bad for the U.S."

With Congress unlikely to move soon on new trade deals, however, other executives think the next Administration should focus on fighting harder to protect American industry's interests abroad. U.S. policy has been especially ineffective when it comes to high-technology industries, which account for a major share of American exports, argues Reed E. Hundt, an Intel director and former Federal Communications Commission chairman. Until the late '90s, the U.S. had been a net exporter of high-tech goods for 50 years, Hundt notes. Now it runs huge deficits with China. "Why is it that we don't have a serious high-tech export policy?" he asks. At the very least, the U.S. should press China and other nations more aggressively to stop rampant piracy, says Hundt, who also advises President-elect Obama.

Manufacturers want the next Administration to more aggressively pursue sanctions against nations that keep their export prices artificially low with unfair subsidies and by manipulating their currencies. "Trade in a global economy is based on freedom from trade-distorting practices," says Daniel R. DiMicco, CEO of Charlotte (N.C.) steelmaker Nucor.

Other executives say Washington could boost American competitiveness by granting tax breaks to domestic manufacturers and by hiking tariffs on Asian-produced goods in industries where there is a large U.S. production base. "When labor costs are much higher here, it is important that the government incentivize companies that manufacture in the U.S.," says Shawn Neville, CEO of Boathouse Sports, a 200-employee maker of custom sports apparel in Philadelphia.

If the next Administration heeds calls for protectionism, however, it will quickly hear from manufacturers who rely on low-cost imports to remain competitive. The Precision Metalforming Assn., which represents small and midsize parts makers for

(FROM TOP) PHOTOGRAPHS BY ALLAN TANNENBAUM/POLARIS; DANIEL ACKER/BLOOMBERG NEWS autos and other industries, criticized Bush for temporary protective tariffs on Chinese steel to help big U.S. steelmakers in 2002. It fears Obama could also "go too far," says President William E. Gaskin. Most of the group's members use rolled steel imported from China, he says. "If we keep raw materials out," warns Gaskin, "the finished product will be made someplace else."

WHAT'S LIKELY TO HAPPEN

Most analysts believe an Obama Administration will be far more trade-friendly than its campaign rhetoric might have suggested. While he may press Mexico to enforce labor and environmental standards, for example, don't expect Obama to push unilaterally for a wholesale renegotiation of the 15-year-old North American Free Trade Agreement with Mexico and Canada. But it is unlikely Obama will quickly resume free trade talks with nations like Colombia and South Korea, or revive the long-stalled Doha Round aimed at achieving a new global trade treaty. Not for the first six months, at least.

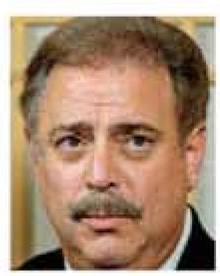
One reason is that unions, which made a huge issue out of NAFTA and other trade pacts during the Presidential campaign, will keep pressure on a Democratic Congress not to strike more deals—even if U.S. negotiators manage to secure better terms on labor rights, environmental protection, and U.S. market access. The broader problem, trade lobbyists say, is that the political consensus for free trade has broken down in the U.S. Many Americans believe that U.S. industries can't compete with imports and that the risks of layoffs are too high. "There is deep unease about global engagement," says Daniel W. Christman, senior vice-president for international affairs at the U.S. Chamber of Commerce.

So look for the next Administration to address some of the key underlying anxieties about globalization. Congress could, for example, expand access to health care, tax credits for companies that invest in U.S. manufacturing, and compensation for workers who lose jobs because of imports. Washington also could beef up worker training programs aimed at teaching the technical skills needed for U.S. companies to compete globally. And Obama could ratchet up pressure on China, Mexico, and other major trading partners to adjust currencies, protect worker rights, and crack down on piracy. Some analysts think the Democrats could even ratify at least one bilateral agreement, such as with Panama, to assure the world the U.S. still believes in free trade.

Such measures could be the start of the long process of rebuilding public confidence in trade. "The first step," says Boeing's McNerney, "is to make the case to the American people that trade, properly structured through agreements that are rigorously enforced, is not something to be feared, but to be embraced." |BW|

LABOR RELATIONS KEEP THE SECRET BALLOT ALIVE

By Michael Orey



"The secret ballot is a sacred right of all Americans at the ballot box and it should be the same for all American workers. Why are the unions afraid of a secret ballot? It does not get any more un-American than this 'Card Check' voting."

– DANIEL DIMICCO, CEO, NUCOR

WHAT BUSINESS WANTS

Steve Walker, president of Walker Machinery in Charleston, W. Va., has one word for the Employee Free Choice Act: "Awful." The Caterpillar equipment dealer echoes the broad sentiment of business in vehemently opposing EFCA, which would allow workers to form unions without a secret-ballot election. The controversial bill, also known as Card Check, would allow labor organizers to form a union by simply signing up a majority of employees. "We've won some, and we've lost some" union battles over the years, says Walker, "but we've been given the right to present our position each time."

EFCA is among a raft of proposals pending in Congress that could reshape relations between employers and employees, by mandating paid sick leave, broadening equal-pay legislation, increasing damages for employment discrimination, and expanding protections for new workers. But Steven J. Law, general counsel of the U.S. Chamber of Commerce, says Card Check is "the cherry on the sundae." He argues that EFCA would "alter a relative balance in labor-management relations which has existed for the last 50 years." The major fear? That the measure would let labor organizers strong-arm workers into signing up for a union, with a resulting surge in union ranks nationwide.

ILLUSTRATION BY ANDY MARTIN; PHOTOGRAPH BY SEOKYONG LEE/BLOOMBERG NEWS

Under current law, if union organizers collect signatures from 30% of workers at a particular site, the National Labor Relations Board can be brought in to supervise a secret-ballot election. If a majority of workers vote to organize, the NLRB will certify the union. Labor groups complain that employers take advantage of this process to mount antiunion campaigns, often resorting to intimidation. What's more, they say, even when the NLRB has approved a union, companies use appeals or other tactics to delay negotiating an initial contract, sometimes for years. Card Check allows a federal mediator to impose a contract if union reps and management aren't able to come to terms on their own.

Unions have seen their membership shrink to 7.5% of the private-sector workforce and view EFCA as vital to reversing that trend. Businesses often couch their opposition in terms of values. "Card Check is completely un-American," says Daniel R. DiMicco, chief executive of Nucor, which has remained union-free in the highly unionized steel industry. "The secret ballot is a sacred right of all Americans."

Others say the bill simply doesn't reflect the realities of the global workplace. As Jim Goodnight, CEO of private software giant SAS, notes: "We've got to work harder and harder to be competitive in the world. And if you've got labor unions constantly trying to make you less competitive, put more people on the payroll, it's the wrong direction."

WHAT'S LIKELY TO HAPPEN

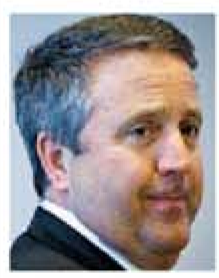
With Barack Obama in the White House and a fortified Democratic majority in Congress, will Card Check become the law of the land? Organized labor funneled vast amounts of money and effort into Democratic campaigns. And Bill Samuel, director of government affairs for the AFL-CIO, says EFCA is "the top legislative priority" for his organization. That has led some observers to predict that the measure will sail onto Obama's desk, perhaps in the first 100 days of his Administration.

But others aren't so sure EFCA will pass, at least in its current form. "I think the final shape of the legislation is still an open question," says Lance Compa, a professor at Cornell University's School of Industrial and Labor Relations. His colleague Jefferson Cowie is more pessimistic about labor's prospects. He says dispensing with a secret-ballot election may be too politically unpalatable for lawmakers. Compa thinks a final version might find some middle ground, with safeguards to assure that employers and unions alike don't abuse the process.

Certainly business lobbyists aren't about to throw in the towel. Law of the Chamber of Commerce thinks some legislators could be persuaded to change their minds. "We would intend to fight very hard on this issue," he says. | BW |

INFRASTRUCTURE PAVE HIGHWAYS—AND THE I-WAY

By Jane Sasseen



"Historically, U.S. infrastructure has been the greatest in the world, yet we also recognize that all of those investments were made by my grandfather's [generation]. When it was built, we had 200 million people, and we benefited from it for literally four, five, six decades. So as we've grown... to 300 million, we've taken the excess capacity out of all this infrastructure."

– MATTHEW ROSE, CEO, BURLINGTON NORTHERN SANTA FE

WHAT BUSINESS WANTS

Shoring up tumbledown ports. Patching pothole-riddled roads. Upgrading aging bridges.

It's hardly the sexy stuff of government. "Congress doesn't like filling potholes; it doesn't have a lot of zing to it," says Martin Neal Baily, a former head of the Council on Economic Advisers under Bill Clinton who studies competitiveness and productivity at the Brookings Institution.

But talk to CEOs who depend on America's crumbling infrastructure, and it's clear they see this decidedly unglamorous work as vital to national competitiveness. The U.S. Chamber of Commerce estimates that the decaying transportation system annually costs the American economy $63 billion in lost time and fuel. "The most important thing for the new President to do is invest in the infrastructure of the country—the fundamental things we need to do to grow our businesses," says Marc Benioff, chief executive of Web software maker salesforce.com.

It's not just crumbling roads that corporate leaders worry about. The U.S. has slid to 15th worldwide in broadband development, according to the Information Technology & Innovation Foundation. "The next President needs to create the rules and regulations that accelerate the rollout of mobile broadband," says Gregory Q. Brown, co-CEO of Motorola.

Finding the enormous sums to repair so much will be tough. Over the next 10 years, the Chamber estimates a shortfall of roughly $50 billion per year between what is needed to repair the highway system and the spending that's currently planned. To expand the rail network to keep up with trade growth, the railroads will need an additional

(FROM TOP) PHOTOGRAPHS BY JEFF HUNTER/GETTY IMAGES; ERIC THAYER/REUTERS

$148 billion. And the investment required to satisfy the projected fiftyfold rise in broadband traffic by 2015 could top $100 billion.

It's hardly a problem of money alone, but a question of how it is spent, argues R. Bruce Josten, the Chamber's head of governmental affairs. Too much has gone to pork barrel items and too many state politicians divert federal funds allocated for maintenance into projects more likely to win favor from constituents, he says. Josten argues that retailers, manufacturers, and others whose livelihoods depend on better roads and ports must work harder to build support. "They need to become the public face" of the issue, he says, thereby helping to make it clear that the U.S. cannot remain competitive if its infrastructure continues to collapse.

WHAT'S LIKELY TO HAPPEN

Of the many items on the business wish list, this looks to be one of the first to win active attention. With the economy sinking, infrastructure spending is a critical component of the Democrats' plans for further stimulus. In mid-October, then-candidate Barack Obama called for $25 billion to repair roads, bridges, and public schools, which he argues would help create a million jobs. He and congressional leaders are working on a $150 billion stimulus plan for late November that could include a big allocation for infrastructure.

That spending may encounter opposition from the outgoing Bush White House and its congressional allies. They argue that much of the money will simply go to pork and they complain that such projects get off the ground too slowly to help in the short term. But Jared Bernstein of the liberal Economic Policy Institute—and an Obama adviser—says lists are already being compiled of projects that are ready to start up shortly after funding is approved. In a recent report the EPI identified some $30 billion of such proposals, ranging from subway maintenance in New York to improved waste management in Indianapolis.

Given the Democrats' newfound dominance in Congress, they may no longer have to compromise with the GOP come January. If the Democrats can't get their infrastructure plans included in November's stimulus package, they'll settle for something less ambitious now, only to return with a much more extensive stimulus bill soon after Obama takes office.

The President-elect would like to make this legislation the down payment on his campaign pledge to rebuild public capital. As his term progresses, however, the economy may be more of an impediment than the GOP. "The Democrats know they've got one shot to do something dramatic in January," says Daniel Clifton, the Washington policy analyst for broker Strategas Research Partners. "After that, the spending game is over. The focus will shift to the deficit and the need to raise revenues." | BW |

ILLUSTRATION BY ANDY MARTIN; PHOTOGRAPH BY SEAGATE TECHNOLOGY VIA BLOOMBERG NEWS

TECH MAKE AMERICA MORE COMPETITIVE

By Steve Hamm

WHAT BUSINESS WANTS

Joe the Plumber isn't the only American archetype who's angry at the folks in Washington. Listen to what Craig the Tech Exec has to say: "The government is thumbing its nose at us," grouses Craig R. Barrett, chairman of chip giant Intel. "We're killing engineering and innovation."

Many leaders in the tech industry share Barrett's concerns about America's competitiveness. Their major complaints about Washington are: underfunding of basic scientific research, high corporate taxes, and immigration policies that send much-in-demand foreign-born science students packing when they graduate from American universities. They want improvements in education that will produce a more tech-savvy workforce, and they reject heavy-handed government regulation. "People want more regulation for the big banks, but in the early-stage startup environment, the more laissez-faire we can be, the better," says Ron Conway, managing partner of Angel Investors, which bankrolls startups.

Back before the economy began to crack, Congress passed a bill that addressed many concerns the tech lobby had. Among other things, the America Competes Act would have doubled money for basic research in the physical sciences and improved support for math teachers. But the bill wasn't funded. These days there's even less interest in funding anything that isn't in a state of utter crisis.

Still, tech leaders hope they can make some progress with the new President and Congress. IBM Chief Executive Samuel J.

Palmisano says government and businesses need to plan together and invest in technologies that will create a "smarter" planet. He envisions using high-powered computers and data analysis techniques to improve understanding of everything from climate change to financial systems so better decisions can be made—and made quickly. "This moment presents a rare opportunity to change how the world works," Palmisano says.

The Council on Competitiveness, a major lobbying arm for businesses on innovation issues, didn't wait for election results before making an appeal to the new President. On Oct. 8 the council proposed an *über*-energy strategy that includes a $200 billion fund for investing in alternative energy technologies and infrastructure, such as a so-called smart electrical grid. The program would be financed in part by a new savings bond program. On Nov. 12 the council plans to call for a new package of federal programs aimed at improving education and boosting research funding for new technologies, including alternative energy. Among its proposals is one aimed at rerouting Labor Dept. funds into new training programs more attuned to the technical jobs of the future.

WHAT BUSINESS WILL GET

Barack Obama isn't likely to lower corporate taxes as much as executives want, but he is aligned with the objective of overhauling the infrastructure for innovation. For starters, he has pledged to appoint the nation's first chief technology officer to ensure that government agencies have better technology and more progressive policies.

On the R&D front, he has promised to double federal funding for basic research over 10 years and to set aside money for the most outstanding young researchers in the country. He says he'll make the R&D tax credit, which now requires regular reauthorization, permanent so companies can make multiyear commitments to funding research efforts.

Most of his education proposals focus on the early years, but he also wants to make math and science education a national priority by recruiting and boosting incentives for talented math and science teachers, and increasing financial aid for college science and math students.

Obama favors an increase in H-1B visas for high-skill workers as a stopgap until there's a comprehensive new policy on immigration. As part of that, he favors granting more permanent visas to scientists from overseas. Long-term, he believes the U.S. should produce its own scientists and engineers.

Tax policy could be an area of conflict. Obama isn't offering the kind of tax relief tech executives want. "We've analyzed the impact [of Obama's plan] on our effective tax rate—it will increase by a pretty healthy percentage," says David DeWalt, CEO and president of security software provider McAfee. "The only way to overcome that is through growth or cost-cutting, and, in a downturn, it's hard to do it with growth. So it either means cutting jobs or relocating jobs overseas, just to meet the [earnings per share] the market is expecting."

Given the current budget squeeze, neither Obama nor businesses are likely to get all the resources they want. But business leaders believe that with some creativity they'll be able to get some of what they need. "Initiatives that call for a lot of new federal spending will be challenged," says Deborah L. Wince-Smith, president of the Council on Competitiveness. "We have to link what we're pushing for to the problems that are urgent so we can get the country behind it." | BW |

"Over half of our PhDs are foreign-born students, and we won't even give them a green card. So we educate them at our universities, which are the best in the world, and then we send them back home. It's crazy."

—WILLIAM "BILL" WATKINS, CHIEF EXECUTIVE OF STORAGE EQUIPMENT MAKER SEAGATE TECHNOLOGY

The following reporters contributed to this special election package under the direction of Chief of Correspondents Joseph Weber: Peter Burrows, Roger Crockett, Aaron Pressman, Aaron Ricadela, Arlene Weintraub, Jena McGregor, Rob Hof, Amy Barrett, Manuel Baigorri, Kerry Capell, Emily Thornton, Jon Fine, Nanette Byrnes, Lauren Young, Amanda Zusman, David Kiley, Burt Helm, Arik Hesseldahl, Matthew Boyle, Gene Marcial, and Christopher Palmeri

THE NEW SILK ROAD

(CLOCKWISE FROM TOP LEFT) CAO ZHIZHENG/IMAGINECHINA; HUGH SITTON/GETTY IMAGES; SUSETTA BOZZI/ONASIA.COM; GETTY IMAGES; GLEN ALLISON/PHOTODISC/GETTY IMAGES

THE NEW SILK

By Stanley Reed

Photograph by Siddharth Siva

Historic bonds between the Middle East and Asia are being revitalized in a torrent of trade and investment in energy, infrastructure, and manufacturing

The dusty, 1960s-era building in Delhi's business district is worlds away from the sleek, glass-and-steel towers of Dubai. The elevators, which stop only at even-numbered floors, are packed with sweaty bodies. Shoeshine men ply their trade on the open-air landings. A sign warns: "Spitting in the building premises is strictly prohibited."

Yet you can find a small taste of Dubai tucked away in a modest office on the eighth floor. The cramped quarters are the local arm of Evolvence Capital, a Dubai-based private equity empire that has tentacles reaching deep into the Indian hinterland. From the simple office in Delhi, Evolvence funds businesses such as the top construction company in tropical Chennai, a high-tech pharmaceutical plant in the rocky countryside near Hyderabad, and a private cancer-treatment center run by U.S.-trained doctors in Bangalore.

Evolvence is the brainchild of Khaled Al-Muhairy, a 36-year-old native of Abu Dhabi. Eight years ago, Al-Muhairy left his post as a fund manager at the Abu Dhabi Investment Authority and set up his own asset management firm, Evolvence. In 2003, Al-Muhairy started scouting for stakes in India, figuring that the country's economy was at last ready to take off. Although he was sufficiently wary of the Indian environment to avoid raw vegetables and tap water, he liked

WPN

ROAD

Al-Muhairy's Dubai funds have some $400 million in funds earmarked for India

what he found. Today he has private equity funds worth some $400 million focused on India. "You can see in the eyes of the people that they want to succeed," Al-Muhairy says over a lunch of grilled meats and salads in the garden of a Lebanese restaurant in Dubai.

TRADE FLOWS BOTH WAYS

The Arab world and Asia have a legacy of trade ties dating back to caravans that transported textiles and spices across the desert on the so-called Silk Road and to Gulf traders that sailed the blue waters of the Indian Ocean in chunky ships known as dhows. Today a new Silk Road leads from the busy ports of Shanghai, Hong Kong, and Singapore to the Persian Gulf—and from sparkling airport lounges in Dubai and Riyadh back to Asia's bustling cities. The merchants on this new route are Arab investors looking for smart places to park their petrodollars and Asians seeking to lock up energy supplies and find markets for the goods churned out by their factories.

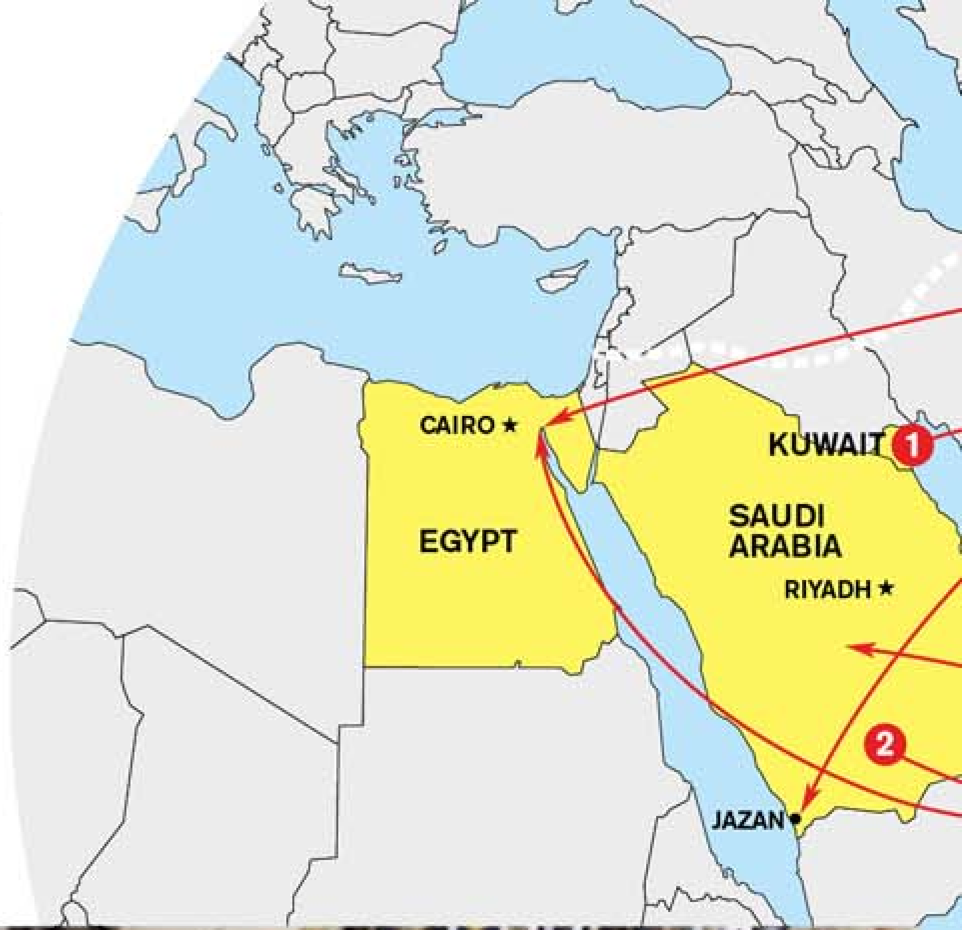
Trade between the two regions has been expanding at a 30% annual clip. Since 2006, Asia has been the largest trading partner of the Gulf Cooperation Council, a group of six wealthy Arab countries, according to data compiled by Standard Chartered Bank. As of last year, Asia accounted for 55% of the GCC's total trade of $758 billion, the bank says. The mainstay of Gulf exports to Asia is oil, but some energy-intensive manufactured goods such as aluminum are also joining the mix. In return, China and Japan send to the Gulf products ranging from cars to computers while India and other Asian countries supply much of the food consumed in the Middle East. And while the scale of investment lags the trading ties, investors from the Gulf are buying stakes in everything from Asian banks and department stores to hotels and office buildings. Standard Chartered estimates that the Gulf countries invested $60 billion in Asia from 2002 to 2006.

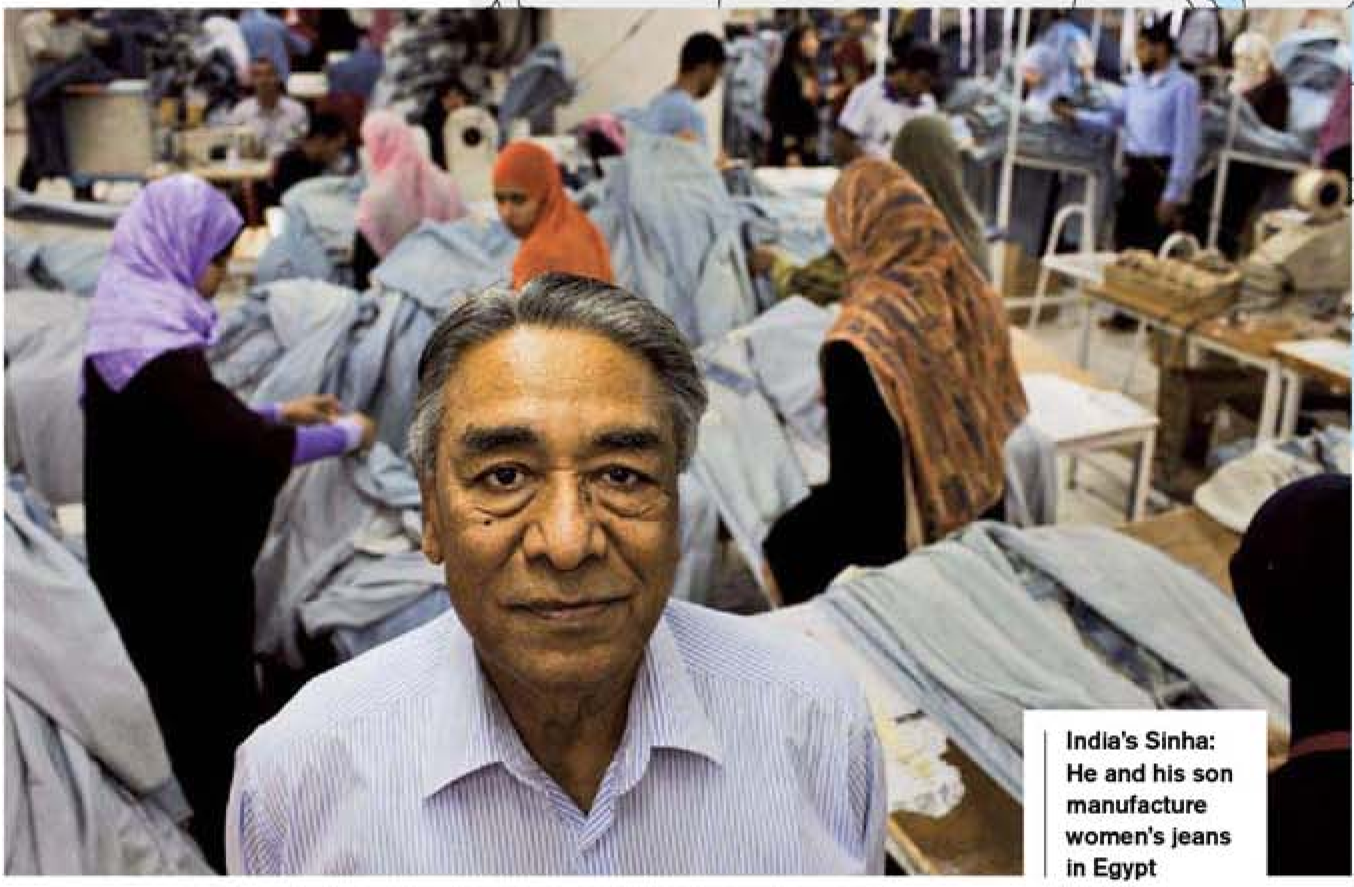
It's easy to find evidence of the growing links. Delhi newspapers advertise homes built by Emaar Properties, a Dubai developer. Smaller companies from Algeria, Egypt, Morocco, and elsewhere have factories in China to make shoes, toys, and the like. And so many Middle Eastern traders visit the wholesale markets in the southern Chinese town of Yiwu that road signs are posted in Arabic as well as Chinese and English. "Power is moving from West to East," Al-Muhairy says. "It is a huge opportunity."

The Asians are getting a foothold in the Middle East, too. China has plowed billions of dollars into North Africa's oil sector, especially in Sudan and Algeria. Along with the energy investment comes work for Chinese companies building roads, pipelines, and other infrastructure. Goods from Chinese appliance manufacturer Haier and electronics maker TCL are available across the Middle East. Indian engineering outfits Larsen & Toubro, Voltas, and others help out on real estate and industrial projects in the Arab world. And Malaysian developer MMC is working on a vast new city in Saudi Arabia. "We are seeing serious investment flows from Asia to the Middle East," says Rachid Mohamed Rachid, Egypt's trade & industry minister.

Why the change? For several years booming Asia has looked more promising than the U.S. or Europe. And the backlash against Middle Easterners in the U.S. following the September 11 attacks has encouraged the region's businessmen to look for other places to put their money. Many Arabs who might once have gone to the U.S. or Europe for education, medical care, or vacation are instead choosing Asia—and taking their business interests with them. "All the traditional and fundamental links [with the West] are being replicated and taken over by Asia," says Rachid.

OLD ROUTES, NEW TRADE





India's Sinha: He and his son manufacture women's jeans in Egypt

PHOTOGRAPH BY SCOTT NELSON/WPN

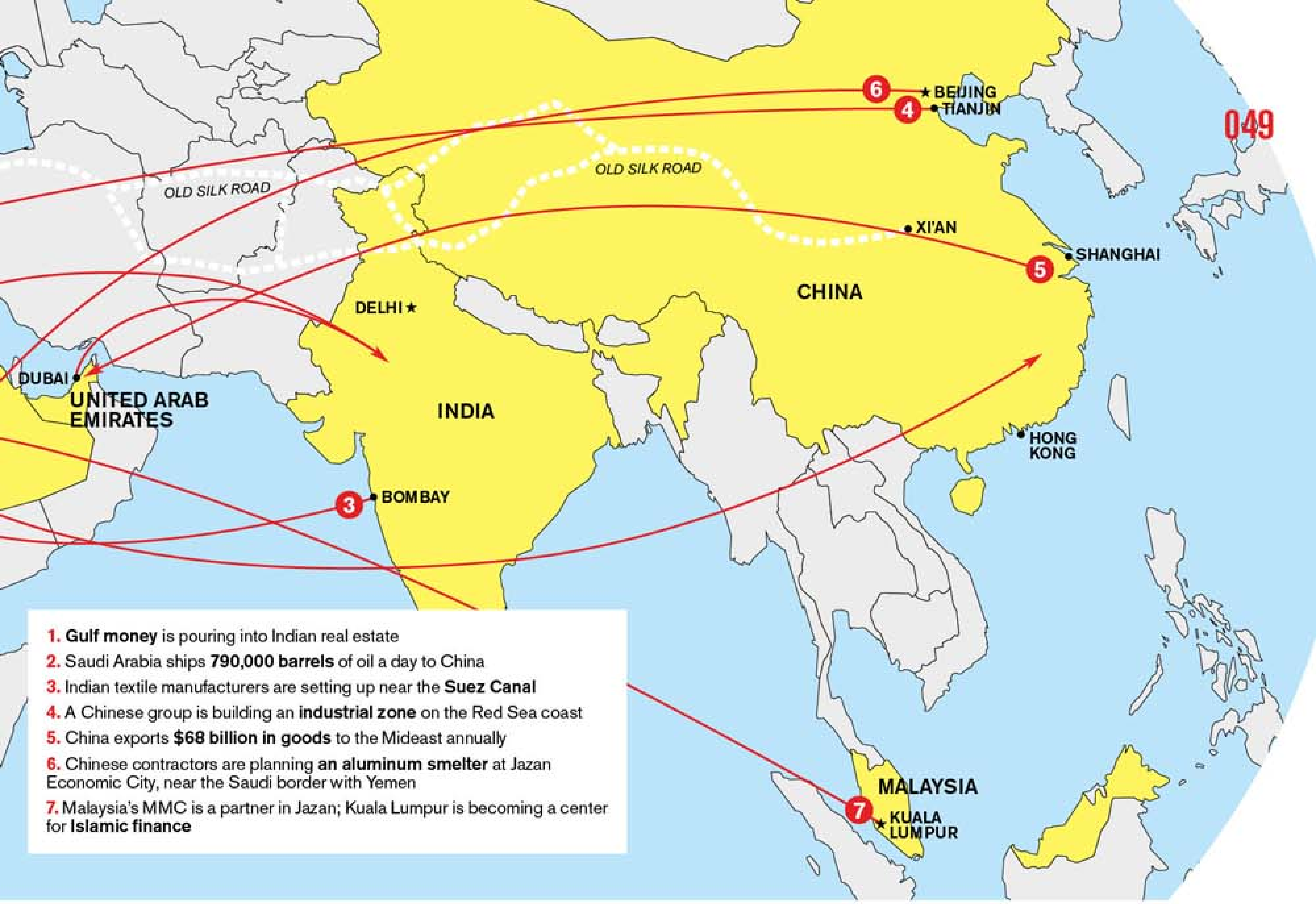
FORTUNES BUILT ON GOLD AND PEARLS

The global credit crunch will doubtless affect the trend. Stock markets across both regions have plummeted, slashing the value of investments. With oil prices down, Arab countries will have less money to invest; governments may use their cash to prop up domestic economies and possibly bail out banks and developers. But the West is suffering, too, so there's little reason to believe the economic integration of the Middle East and Asia won't continue.

While talk of the original Silk Road suggests distant history, ties between the two regions remained vibrant until the mid-20th century. Many Gulf Arabs sent their children to learn English in the subcontinent's schools, which they considered superior to those available in at home. Kuwaiti captains traded pearls from their domestic waters to Indian merchants for rice, teak, and steel. And many of them also stashed contraband gold—subject to high duties in India—in the cargo. "Gold smuggling formed the basis of the fortunes of many Kuwaiti families," says Nadira Sultan, a member of a Kuwaiti merchant clan with a long history on the subcontinent.

Those links led to thriving communities of Gulf Arabs in India. Sultan family lore tells of an ancestor who was ruined after his ship foundered on a reef off Mumbai. Sultan's father later built his career in India, where Sultan spent her childhood in the 1950s. She recalls sleepless nights in the Indian resort of Khandala, "not daring to breathe because of the tiger growling outside our bedroom window," and being enchanted by snake charmers and dancing monkeys on Mumbai's streets.

A few years later, though, the subcontinent began to lose its



charm for many Arabs. India started throwing gold smugglers in jail just as the Gulf's oil industry took off, creating good jobs closer to home. Nadira's brother, Nader, for instance, eventually became CEO of state-owned Kuwait Petroleum. The oil boom led to closer ties with the U.S. and Europe, and most Arabs forgot about India, China, and the rest of Asia, preferring to invest in the West.

Nadira Sultan's cousin Tarek is among the latter-day trade sheikhs working the new Silk Road. He is CEO of Agility, a Kuwaiti logistics and warehousing outfit with $6.2 billion in annual revenues. Agility has made a bundle supplying the U.S. military in Iraq. Now it's plowing nearly $2 billion into millions of feet of warehouse space and other trade infrastructure in Asia, building up a network of 70 offices and 20,000 employees in China and India. Agility even deployed a dozen trucks and 100 workers to handle dirty laundry for athletes at this summer's Beijing Olympics. "Everybody knows about China and the U.S.," says the 44-year-old Sultan. "We are making investments in the trade that takes place within Asia."

FINANCIAL FIREPOWER

On the ground in the Gulf, connections with Asia are visible everywhere. Asian laborers are the muscle that builds skyscrapers, airports, and petrochemical plants. Asians also provide much of the brains and managerial talent at businesses ranging from investment banks to retailers, and people whose parents or grandparents originally came from the Indian subcontinent form the backbone of the middle class in Dubai and Abu Dhabi. The souks along the Creek, the salt inlet that was Dubai's original harbor, are dotted with hole-in-the-wall Hindu temples, and it's rare to spot anyone in Arab dress among the crowds piling into *abras*, the rough wooden water taxis that shuttle across the luminous green water.

So far, investment flows haven't kept up with trade ties, but that's likely to change. To date, only about 11% of foreign direct investment from the Gulf has gone to Asia. But by 2020 that could nearly double, to 20%, while the share of Middle Eastern money flowing West will fall to about half the total, from three-quarters today, consultancy McKinsey estimates. Even with lower prices for crude, the Gulf countries will have lots of financial firepower. If oil averages $50 per barrel, McKinsey figures, the Gulf will earn $4.7 trillion through 2020.

Middle Eastern sovereign wealth funds are already pour-

ASIA PROVIDES THE GULF WITH THE MUSCLE THAT BUILDS SKYSCRAPERS AND THE MANAGERIAL TALENT TO RUN COMPANIES FROM BANKS TO RETAILERS

MAP BY LAUREL DAUNIS-ALLEN/BW

A trader in Yiwu; the Chinese town has road signs in Arabic

MARK RALSTON/AFP/GETTY IMAGES

ing money into Asia. The largest—the Abu Dhabi Investment Authority—aims to have 8% to 12% of its estimated $500 billion-plus fund invested in emerging market stocks, with Asia a key destination. Other big investors include Dubai Financial Group and Dubai International Capital, controlled by the emirate's ruler. But a lot of recent investments in Asia have taken a whack. Dubai International Capital, for instance, bought 3% of India's ICICI bank for more than $700 million in July 2007. Since then, ICICI's shares have fallen 53%.

For Asian and Middle Eastern investors, negotiating the written and unwritten rules of each others' business environments isn't easy. While India may be "the backyard" of the Gulf region, says Georges Makhoul, Middle East president for Morgan Stanley, China and other countries farther east are more challenging for Arabs to understand and penetrate. A recent Chinese delegation to Kuwait tried to pitch investors on projects in the mainland that might cost anywhere from $10 million to $100 million, but the Kuwaitis considered those too small. Instead, they expressed interest in a $400 million industrial development zone and a $300 million tower with offices and a hotel. "Arabs don't like to invest in small projects—only huge ones," says Lin Shunjie, a Chinese trade official. "If they invest in real estate in Shanghai, they want to invest in the tallest building."

MEGAPROJECTS ACROSS ASIA

A handful of sophisticated investors is helping to break down those cultural barriers. A key Gulf emissary has been Mohamed Ali Alabbar, chairman of developer Emaar Properties and a top advisor to Dubai's ruler Mohammed bin Rashid al Maktoum. Alabbar has an undergraduate degree from Seattle University in the U.S, but he got his first taste of razzle-dazzle entrepreneurship working as a banker and investor in Singapore in the late 1980s and early '90s. "Interacting with the Chinese was such a gift for me," he says over lunch at his sunny Dubai home, looking out over a swimming pool to his private six-hole golf course. Now he's working on some $5 billion worth of hotels, golf course communities, and shopping malls in India, Indonesia, Pakistan, and China—though some of those projects will likely be delayed due to the credit crisis.

In both regions giant, state-controlled companies are lead-

Business Exchange

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Turkey Looks to Central Asia

Russia's war with Georgia last summer may have created an opening for Turkey to boost its ties with Central Asia. A Turkish delegation to the region in October sought to dramatically increase trade over the next two years, the online publication Eurasia Daily Monitor reported on Oct. 22. While energy will be a keystone of that effort, Turkish companies also do construction work in the region and have significant investments in Central Asian companies. Turkey shares linguistic, religious, and cultural traditions with the region, and it may use that common heritage to counter Russian and Chinese influence in Central Asia.

To read the Eurasia Monitor article, go to http://bx.businessweek.com/investing-in-turkey ing the way. With more than half of Saudi crude flowing to Asia, Saudi Aramco, the national oil company, is trying to lock up markets in the region. In China, Aramco is a partner in a $5 billion refinery and petrochemical complex in Fujian Province, while China's Sinopec is displaying the green, blue, and white Aramco logo on 31 of its gas stations. Sinopec, meanwhile, is one of a handful of foreign oil companies looking for gas in the restrictive Kingdom.

CHINESE EXPORTS TO EGYPT HAVE QUADRUPLED SINCE 2003. NOW CAIRO IS PUSHING CHINA TO BUILD FACTORIES—AND CREATE JOBS—IN EGYPT

Riyadh has set up a vast initiative called Jazan Economic City to attract Asian capital. Today, Jazan is a remote, 40-square-mile strip of desert scrub and mangrove flats on the Red Sea, not far from the Yemeni border. One of the project's anchors is supposed to be a $4.5 billion aluminum smelter and power plant owned by local partners and China Aluminum, or Chalco. And the Saudis are looking for a partner on a refinery in Jazan. Asian businesses are being told that Jazan has at least three attractions: subsidized energy, a foothold in the Gulf, and proximity to booming markets in East Africa. The Saudis hope Jazan will soak up high unemployment in one of the Kingdom's poorest areas. But in the early stages, at least, thousands of workers are likely to be imported from China, India, and elsewhere in Asia because locals lack the necessary skills.

EGYPTIAN ARM-TWISTING

While oil-exporting nations want to lock up markets for their crude, Egypt and other Arab states are pushing Asian countries for investment that creates jobs. China's exports to Egypt have more than quadrupled since 2003, to $4.7 billion in 2007—roughly 18 times the value of Egyptian exports to China. The Egyptians want China to compensate by manufacturing in Egypt. "We are trying to make Egypt a hub for China to export from," says Ahmed El Sewedy, chief executive of Cairo-based El Sewedy Cables and head of the Egyptian-China Chamber of Commerce.

Drive about an hour northeast of Cairo, and you'll see evidence that the Egyptian arm-twisting may be working. In a secluded stretch of desert near the mouth of the Suez Canal, TEDA—one of China's biggest development agencies, based in the northern port city of Tianjin—is carving out a manufacturing zone. The aim is to attract some 50 Chinese-owned factories that would employ 10,000 Egyptians and 1,000 Chinese. Seven companies are already operating in the area, including a Chinese/Egyptian venture that assembles oil drilling rigs and another that makes disposable garments for hospitals and restaurants. Liu Aimin, general manager of Egypt-TEDA Investment, the company that's developing the zone, ticks off Egypt's attractions for Chinese companies: cheap labor, trade agreements that ease entry of goods into the U.S., Europe, and Arab countries, and a location "at the crossroads of Asia, Africa, and Europe, facing 1 billion customers."

Like most Chinese in the region, the TEDA people seem hunkered down in the middle of nowhere, worrying about security. Indian businessmen in the Middle East, by contrast, seem much more willing to mix with the locals. In nearby Ismailiya, a pony-tailed Indian textile designer named Siddharth Sinha and his father, Man Mohan Sinha, have set up a factory to make women's jeans. The Velocity Apparelz plant boasts spacious meeting rooms full of edgy art where buyers from companies such as Levi Strauss, Zara, and Gap come to see new designs. The 2,700 workers, many of them young women in headscarves, use lasers to burn wear marks onto the fabric and phalanxes of embroidery machines to stitch flowers along the seams. The plant—one of three the Sinhas operate in Egypt—is likely to turn out more than $40 million in jeans this year, and the Sinhas have acquired land for a fourth factory near Cairo. "India is a very difficult place to operate," says the younger Sinha. "So we said: 'Why not do something completely different?'" | BW |

—With Dexter Roberts in Beijing and Nandini Lakshman in Mumbai

Kuwait's Tarek Sultan is putting billions into warehouses in China and India

SIDDHARTH SIVA/WPN

Bar owner Menon (center) and friends: These days the party ends at 11:30 p.m.

BANGALORE BACKLASH

By Mehul Srivastava
Photographs by Namas Bhojani

The tech boom has brought highways, high-rises, malls, and nightclubs. Now many want their once-tranquil city back

BANGALORE, INDIA
The Hard Rock Café in downtown Bangalore used to be a swinging place, with free-flowing booze, loud music, and dancing into the wee hours. But on a recent Thursday night, George Phillip and his friends watched woefully as a waiter made off with unfinished drinks a half hour before midnight. "I just got off a call with an overseas client and rushed over here," says Phillip, a 32-year-old software engineer. "I might as well have gone home."

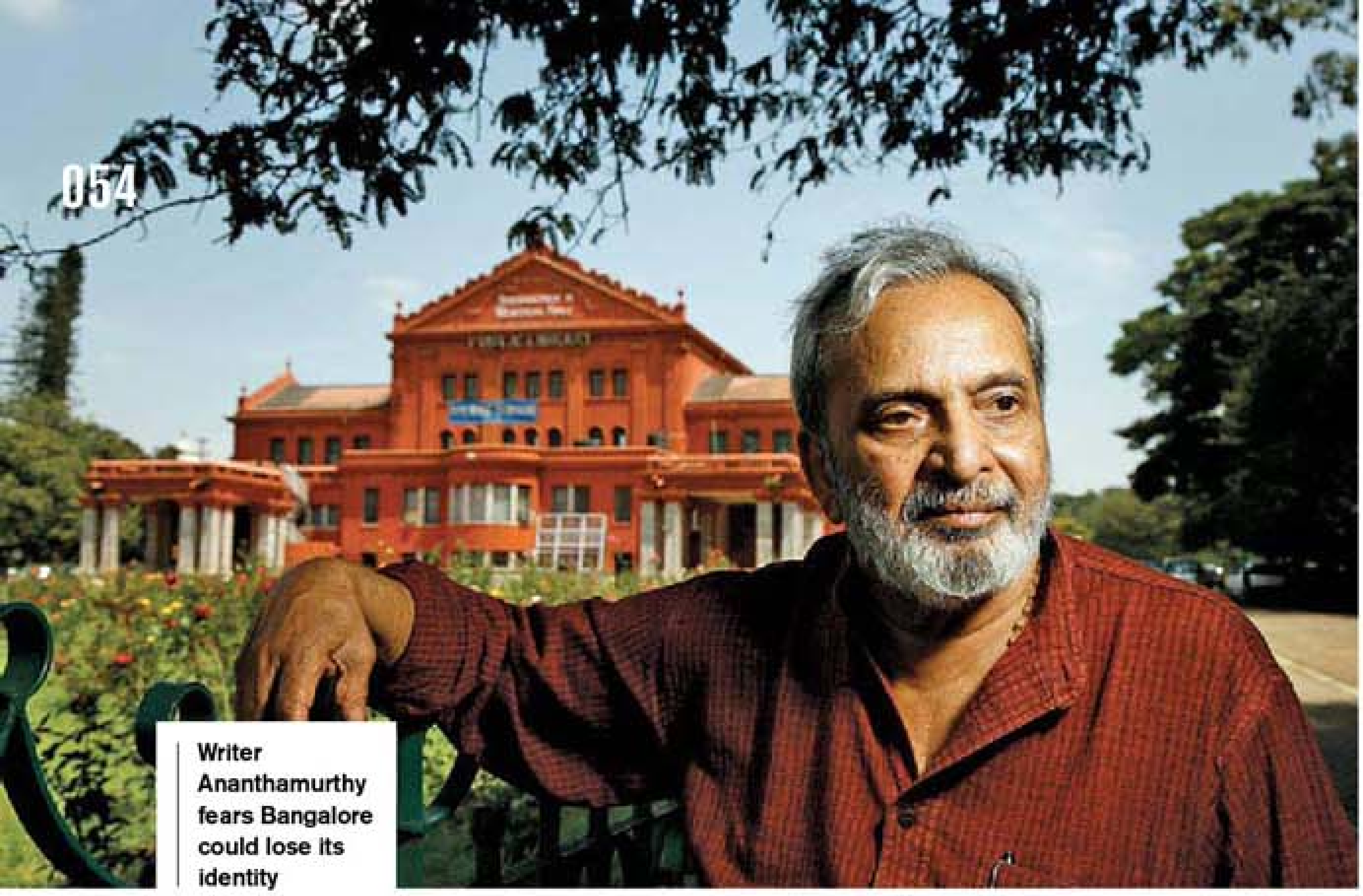
Since July, Bangalore has strictly enforced a 1967 law requiring bars to close by 11:30 p.m. And no matter how catchy the tune on the jukebox, unless the bar has a discotheque license—something rarely granted—nobody is allowed to dance. That's a dramatic shift for Bangalore, where watering holes have sprouted faster than info tech companies in recent years. For Phillip, who works evening and night shifts, making it to a bar on time these days is nearly impossible. "What options do I have after work?" he says, scribbling his signature on the credit-card receipt presented by the waiter. "Do I just go home and drink, without socializing at all?"

The ban is emblematic of the strains the tech boom is creating in Bangalore. Older residents, especially, say the newly arrived technology workers are ruining the once-tranquil city with their bars and nightclubs, fast cars, and easy money. "A lot of this new wealth is conspicuously displayed," says Madhu Menon, a former high-tech worker who now runs his own restaurant. "The old-timers look at that and they say, 'Hey, these guys don't deserve this.'"

TRAFFIC JAMS AND MALLS

Even though software made Bangalore India's best-known brand name, many longtime residents aren't exactly grateful. Instead, the people of Bangalore seem locked in a cultural struggle with Infosys Technologies, Wipro Technologies, and other titans of the software industry. In the early 1990s, before the world had heard of Bangalore, it was one of India's most pleasant cities, with great weather, cheap housing, and cultural and educational institutions that offered a vibrant mix of theater, film, literature, and music. Now, with 500,000 IT workers living alongside nearly 7 million other residents, the metropolis is choking on its own success. The roads have become parking lots for much of the day, rents are soaring, and small-scale theaters and bookstores are being shouldered aside by American-style malls.

Native Bangaloreans ask a simple question: Does the city belong to the IT industry, with all its riches? Or does it belong to those who arrived first, whose children must now work for outsiders who don't speak the local language, Kannada? "It's a more fundamental debate than whether or not IT is making



Writer Ananthamurthy fears Bangalore could lose its identity

Bangalore less affordable," says U.R. Ananthamurthy, a noted Kannada writer. "It's a question of identity—what is Bangalore? Who is a Bangalorean?"

The rigid rules on nightlife strike at the heart of this debate. Police Commissioner Shankar Bidari started enforcing the forgotten law on closing times shortly after he took over as the city's top cop in July. He says he simply didn't want to deploy his limited forces to cruise nightclubs and watch for drunks and fights. "This is not 'Talibanization,' this is the price of development," Bidari says, looking out over the tree-lined compound that serves as police headquarters, where birds compete with the sounds of Bangalore's downtown streets just beyond the gates. Despite the furor his decision has caused, he notes that he's simply enforcing a law that was already on the books. "It's not as if I changed the rules," Bidari says. "I am not a puritan. Up to 11:30, the whole world is yours. But after that, even [young people] have to rest."

GROWING PAINS

Old-timers contend that Bangalore spends far too much money and time on services for its newly arrived software writers and call-center workers. In a city where most people can't afford cars, they fret that the government is building wider roads to speed tech workers around. When Bangalore's old airport struggled to handle growing passenger traffic, the state government ordered up a new $500 million facility—which opened in June—even though fewer than 5% of Bangaloreans have ever been inside an airplane. And while a shortage of affordable housing squeezes non-IT workers out of the city or into slums, both private and government construction is focused on high-rise apartments for the wealthy. The software industry "commands a disproportionate amount of influence," says Lalitha Kamath, an urban researcher and former lecturer at Rutgers University in New Jersey.

One vocal camp even maintains that the repetitive nature of writing software code has corrupted Bangalore's intellectual spirit. "These 20-year-olds are like coolies, doing the same job over and over," says CNR Rao, a Bangalorean scientist who has been an adviser to the Indian government for decades. The software industry, he says, has turned the city into a glorified sweatshop. "Where is the innovation?" he asks. "How does this contribute to anything but greed and commerce?"

The bar regulations aren't the only way native Bangaloreans are beginning to make outsiders feel unwelcome. The Karnataka Rakshana Vedike, a local group whose name means the Forum for the Protection of Karnataka (the state Bangalore is in), has had a resurgence in popularity as it has pushed IT companies to hire more Kannada-speakers. It has also convinced the government that road signs should be only in Kannada and English, not the Hindi of many of the city's newer residents. "We expect outsiders who come to Karnataka to speak Kannada," says Ganesh Chetan, a member of the group. "When you go to France, you learn French, don't you?"

The software industry counters that its influence has made the city a more livable place, for newcomers and longtime residents alike. Although the global credit crunch has slowed its growth, over the past decade the tech sector has created tens of thousands of jobs—for coders, call center employees, and office managers, of course, but also for security guards, construction workers, and domestic help. And with growing tax revenues, the city has been able to add bus lines and is building a subway system. "This is a city in transition, a city which reflects that while India can handle scarcity, it doesn't know how to handle prosperity," says Mohandas Pai, a board member at Infosys and a resident of Bangalore since the 1950s.

Some longtime residents say globalization's effect on Bangalore isn't entirely bad. Sitting in the cafeteria of a crowded theater where the box office displays a sold-out sign for a stage production, playwright and filmmaker Girish Karnad points out that young blood and money have sustained the bohemian spirit that many older residents yearn for. "You shut down the bars that play live music, and suddenly musicians have no income," he says. "How does that help Bangalore remain culturally relevant? This old Bangalore that people are nostalgic for, I don't remember it as being especially vibrant—just more comfortable and cheap." | BW |

"THESE 20-YEAR-OLDS ARE LIKE COOLIES, DOING THE SAME JOB OVER AND OVER," SAYS A BANGALORE SCIENTIST. "WHERE'S THE INNOVATION?"

WHAT'S NEXT

RAYMOND BIESINGER

BANKING

Too Much Like Fannie and Freddie?

The Federal Home Loan Banks fall in the same gray area—and could pose risks to the financial system

By Peter Coy

Fannie Mae and Freddie Mac were controversial for years before they fell into government conservatorship this year. But few people have considered the risks posed by the Federal Home Loan Bank System (FHLB), even though it occupies the same gray area between the public and private sectors.

Created by Congress in 1932 to bolster mortgage finance, the system, with its 12 member banks, lends to financial institutions of all sizes, with more than $900 billion in outstanding loans as of midyear, up 43% since 2006. Like Fannie and Freddie, the system can borrow cheaply because of the assumption that the federal government won't let it fail. As private cooperatives, the 12 banks make profits and pay dividends to their owners—more than 8,000 financial institutions.

Here's the problem: The system has weak restraints against overlending. Its stated mission is to make loans, and by law it's not responsible for monitoring or controlling what those