

Boeing, Wash U., Others Play 'What If' with the Fiscal Cliff



December 16, 2012 10:00 am • By Tim Logan tlogan@post-dispatch.com 314-340-8291

The last few years of on-again, off-again economic recovery have been uncertain to say the least.

From last summer's debt ceiling debate to November's presidential election, we've had no shortage of big events to give heartburn to businesses and investors. And we've heard a lot about how not knowing what comes next slows spending and hurts the economy.

At times, the dreaded "uncertainty" has become as much a part of the conversation as gross domestic product or jobless claims. And now comes the granddaddy of uncertainty itself: the so-called "fiscal cliff." The toxic cocktail of tax hikes and spending cuts that's due to take effect Jan. 1 would likely toss the U.S. back into recession, economists warn.

But delve into the specifics of how — and how people are responding — and it's hard to get a straight answer. Perhaps in part because there's not much certainty about what the cliff would even mean.

The Boeing Co., for instance, could take a big hit to its Hazelwood-based defense unit if sharp military spending cuts prescribed in the fiscal cliff plan take effect. Given that Boeing employs about 15,000 people here, that would seem to be a big deal for the St. Louis area. But the company has made no plans for furloughs because it doesn't yet know what military programs would be cut, or precisely when.

"At this point it is too early for Boeing to speculate on what deep defense budget cuts might mean for individual programs or the facilities that support them," the company said in a recent statement.

They're also trying to plan for the unknown at Washington University Medical School, another huge local employer that receives a lot of federal funding. But it's not easy, said Dean Larry Shapiro.

Research programs at the medical school receive about \$400 million a year from the National Institutes of Health. The proposed 8 to 10 percent cuts would likely result in \$35 million to \$40 million less.

"That would have a huge impact," Shapiro said.

But he doesn't yet know how. The NIH has given no guidance on how it would handle the cuts, Shapiro said — whether it would simply reduce existing grants by 8 percent, or issue 8 percent fewer, or when that would start. For now, the university is advising research teams to act as if 10 percent of their grant funding won't be coming, and it's tapping the brakes on anything new.

"We're being very cautious in our hiring," Shapiro said. "Normally we're out there aggressively, but we're taking a very careful look at every appointment we make."

It's drawing more attention, too, from everyday people trying to manage their taxes. Financial advisers say they're getting a lot of calls as the year's end approaches. Most clients have one big thing on their minds.

The fiscal cliff "enters into about every discussion that you'll have with a client right now," said Steve Brown, a partner in the Tax Services Group accounting firm RubinBrown in Clayton. "There are so many potential changes on the table."

Exactly how those potential changes affect people's decisions varies widely. Some clients are accelerating earnings, Brown said, taking money now so they don't have to pay higher taxes later. Others are standing pat. Some businesses are buying equipment now to use depreciation rules that could run out at year's end. Others are waiting until they know what next year looks like.

"It's a moving target," Brown said.

More than anything, it's that movement — the dread uncertainty — that has people on edge, said Bob Jones, president of Clayton-based Central Trust and Investment.

A deal would not only demonstrate that Congress can get something done, he said, but it would put an end to all the questions, even if some people don't like the answers.

Uncertainty "really pulls confidence out of the system," Jones said. "The financial markets like stability, even over bad outcomes — as long as they're known bad outcomes."

Some fear of the unknown is natural, said Lea-Rachel Kosnik, who teaches behavioral economics at the University of Missouri-St. Louis. And it tends to weigh more heavily when we think things will get worse. But it can also be overblown.

Most businesses need to respond to consumer demand and, so far, there have been little hard data to show consumers are cutting spending in any meaningful way ahead of the cliff. The National Retail Federation, for instance, is still predicting a 4.1 percent bump in holiday spending this season. Many measures of the economy are still improving.

“Uncertainty matters, but it’s not the only factor,” Kosnik said. “If a business sees lines out the door, and people calling placing orders, well, they’re rational. That’s going to dominate.”

And to the degree regular people are concerned, it’s probably more about the broader direction of things, such as the job market and home prices, than about the nitty-gritty that political leaders are hashing out in meetings, said Steve Fazzari, an economics professor at Washington University.

“The most important uncertainty is about the overall state of the economy,” he said. “‘Will I have a job next year or not?’ is probably a bigger deal than ‘Will I have a mortgage tax deduction?’ ”

Still, all these things feed into one another, Fazzari noted. Companies that think their customers will hold back are likely to do the same, in preparation for leaner times ahead. That in turn means fewer jobs, less investment, less money coursing through the economy. The prophecy becomes self-fulfilling.

At the root of the problem, he said, is lack of demand and an economy that hasn’t yet figured out a healthy way to replace the debt-fueled growth of the 2000s. Fixing that would go a long way toward making people more confident — more certain, if you will.

But even then, said Kosnik, people will fret about the downside risk. It’s human nature to worry about what we don’t know. Even if the fiscal cliff is averted and the economy improves, the threat of economic uncertainty, and the impact on business and investment decisions, will never quite go away.

“I’m not sure we need to worry so much about it,” she said. “But I’d guess it will always be with us.”

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