The New York Times
DealB%k
Edited by Andrew Ross Sorkin

NOVEMBER 5, 2012, 9:00 PM

The Election Won't Solve All Puzzles

By ANDREW ROSS SORKIN

Here comes more uncertainty.

It may sound counterintuitive, but whatever the outcome of the election - whether President Obama or Mitt Romney wins - the economy and markets are likely to face more uncertainty, not less, over the coming year.

"Uncertainty" has become the watchword over the last several years for many chief executives, politicians and economists as an explanation - or perhaps an excuse - for the economy's slow growth, for the lack of hiring by business and for the volatility in the stock market.

"The claim is that businesses and households are uncertain about future taxes, spending levels, regulations, health care reform and interest rates. In turn, this uncertainty leads them to postpone spending on investment and consumption goods and to slow hiring, impeding the recovery," a group of professors from Stanford University and the University of Chicago wrote in a study that found "current levels of economic policy uncertainty are at extremely elevated levels compared to recent history." (The professors have created a Web site, policyuncertainty.com, where you can track the "uncertainty" levels.)

Come Wednesday morning, we should know who our president will be. But the uncertainty hardly ends there.

Almost immediately after the elections, the next big talking point on Wall Street and in Washington is going to be the now infamous "fiscal cliff," a series of automatic tax increases and spending cuts that was the result of a Congressional compromise reached last summer and is to take effect on Jan. 1, unless Congress finds an alternative. Some economists say the tax increases and spending cuts in the existing agreement could shave as much as 4 percent off G.D.P. if they are not renegotiated. Already, executives say that the uncertainty over the outcome of the fiscal cliff is causing them to hold back from making new investments.

But the greatest likelihood is that the fiscal cliff isn't going to be resolved soon at all -the betting line of the political cognoscenti is that no matter who wins, Congress will find a way to kick the issue down the road, perhaps as far as the fall of 2013, providing a new cloud of uncertainty over the economy.

For investors, the fiscal cliff includes a tax increase on dividends (making them the equivalent of ordinary income, on which rates could rise to as high as 39.6 percent) and capital gains (up to 20 percent from 15 percent). In a note to clients sent out on Sunday night, Goldman Sachs said that it expected the rate for both dividends and capital gains to be negotiated to 20 percent in either a second Obama term or a Romney presidency. But more important, Goldman noted that when similar tax increases were on the table in 1970 and 1986, "the S.& P. 500 posted negative returns in the December prior to implementation as investors locked in the lower rate." December, the report said, "has the second-highest average monthly return" since 1928.

Many investors have already begun selling stocks and companies in anticipation of tax increases. Speculation was rampant last week that one of the reasons for the timing of the sale of George Lucas's company, Lucasfilm, to Disney for $4.1 billion in cash and stock, was the impending changes in tax policy. (Mr. Lucas has said that he plans to donate a majority of his wealth to charity.)

Once we get past the fiscal cliff, if we do at all, there is Europe. Remember Europe? The issues in Greece and Spain have managed to stay off the front pages during the election run-up, but they have not gone away. Some economists have argued that things have gotten worse. Angela Merkel, the chancellor of Germany, who will face election in 2013, said on Monday that the fiscal crisis in Europe was likely to last at least five years. "Whoever thinks this can be fixed in one or two years is wrong," she said.

And don't forget the Middle East. That "uncertainty" for the world - and the global economy - isn't going away anytime soon either. Questions about a possible attack on Iran will persist under either candidate.

And finally, there is Ben S. Bernanke, chairman of the Federal Reserve, one of the biggest uncertainties of them all. As I reported in this column two weeks ago, the greatest likelihood is that Mr. Bernanke will step down at the end of his term in early 2014 no matter who wins the election.

It's possible - though unlikely - that his departure could happen even sooner if Mr. Romney wins. Over the next year and a half, Mr. Bernanke's future as the Fed chairman will feed a sense of uncertainty among investors who have become accustomed to his easy money policies. If President Obama wins, he is likely to appoint a successor to Mr. Bernanke who is dovish on monetary policy, and more likely to keep printing money as Mr. Bernanke has, a strategy that comes with its own risks. If Mr. Romney wins, he may appoint a more hawkish chairman, a move that could create a different sense of uncertainty about how the Federal Reserve will unwind itself from Mr. Bernanke's policies.

None of these issues are new. President Obama took office facing a fiscal policy dispute that was not and probably could not be settled given the gridlock in Congress. No solution is in sight for Europe's problems. Tension in the Middle East is escalating as fast as nuclear technology. And the Federal Reserve's monetary policy is at its most opaque since the Reagan administration.

All of which shows that the comedian Jon Stewart is more on target than ever with the cheeky title of his election coverage on "The Daily Show" on Comedy Central. Carrying on a tradition, it is known as "Indecision 2012."

Update that to 2013, and it's good for another year.