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They voted Republican in 2000. But now they're worried about job losses and the deficit--and they could cost President Bush the election.

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**BODY:**

Art Schaupeter is the type of voter President George W. Bush shouldn't have to worry about come November. The 61-year-old CEO of Ronart Industries, a tool and die shop in Detroit that makes car body parts for the auto industry, Schaupeter is a lifelong Republican. He is concerned about too much government interference in business. And he voted for Bush in 2000.

But this year Schaupeter is on the fence. He's upset about the state of the economy and dismayed by the migration of manufacturing jobs offshore. As automakers have shifted work to factories in China and other low-wage countries, Schaupeter has had to pare his workforce from 120 to 50. Inside the cavernous new wing of his factory--built four years ago, when times were flush--the giant metal presses sit idle. Meanwhile, Schaupeter's insurance premiums have jumped 20%, forcing him to ask his remaining employees to cover more of their own health-care costs. "Nobody has been paying attention to what's happening to our manufacturing base," Schaupeter says.

That kind of anger may be Bush's biggest problem in the upcoming election. He is likely to finish his first term with fewer Americans working than when he took office--the first time that's happened since Herbert Hoover was President. February's shockingly weak employment growth--just 21,000 new jobs--doesn't help. The Democrats can smell blood in the water. Throughout the primaries, Massachusetts Senator John Kerry, the de facto Democratic nominee, has hammered Bush on unemployment and railed against "Benedict Arnold" companies that send jobs abroad. Kerry will have his own problems to deal with. But jobs, along with the ballooning federal deficit, are issues that the Democrats hope to use to win swing voters--and also dent Bush's core GOP support.

Nationwide, the President's base seems to be holding. If the election were held today, 91% of Republicans would vote for him, according to a mid-February poll conducted by Pew Research Center for the People and the Press. And 80% of FORTUNE 1,000 CEOs, a reliably Republican bunch if ever there was one, plan to vote for Bush this year, according to a poll FORTUNE conducted during the

first week in March (see box). That's only slightly fewer than supported him in 2000.

But there are signs that among certain groups of traditional Republican voters--small manufacturing executives like Schaubeter and fiscal conservatives, for instance--support for the President is crumbling. That mood is especially evident in critical states where tens of thousands of manufacturing jobs have vanished in the past three years. Many of those are states where Bush's margin of victory last time was particularly slim (see map).

A recent journey through the Detroit area revealed plenty of wavering Bush supporters. Tina Carsten, for example, a math teacher at nearby Baker College, says she voted for Bush in 2000 but hasn't made up her mind this time around. "I want to learn more about Kerry," she says. And David Jencks, who runs a small manufacturing company and voted for Bush four years ago, says he probably won't do so again. "I've been very disappointed with him," Jencks says. Karlyn Bowman, an expert on public opinion polls at the American Enterprise Institute, says, "Bush is in danger in a lot of the battleground Midwestern states. The jobs issue here will be very important."

Just ask small manufacturers. "We are dying out here, and the administration is not responding," says Matthew Coffey, president of the National Tooling and Machining Association. The association, which represents tool and die manufacturers across the country, has seen its membership shrink from 3,200 businesses to 1,700 over the past three years as more and more companies have been forced into bankruptcy. Many of these businesses lost out when large manufacturers, encouraged by the elimination of tariff barriers, began making metal parts overseas and importing them back into the U.S. for assembly. "Our members feel that the administration is not only allowing this to happen but, through free-trade agreements, it's encouraging it to happen," Coffey says.

So far the administration has stumbled in its efforts to address voter concerns about a jobless economic recovery. In an embarrassing turnabout, it had to acknowledge in February that its official forecast of 2.6 million new jobs this year was wildly optimistic. And the President had to distance himself from the politically tone-deaf statements of his own chief economic advisor, N. Gregory Mankiw, who told reporters last month that outsourcing jobs was "good for the economy." That may be true, but it doesn't make unemployed factory workers or software engineers whose jobs have just been shipped to Bangalore feel any better about the future.

The American Enterprise Institute's Bowman notes that several polls indicate more Americans are concerned that they or their spouse will lose their jobs within the next year than at any time since the early 1990s. (The CEOs whom FORTUNE polled, on the other hand, seem fairly confident about job growth, though they are less optimistic than Bush's initial forecast.) A recent ABC News/Washington Post poll indicated that, by 51% to 37%,

Americans believe Kerry will be better at creating jobs than Bush has been.

Jobs aren't the only issue. The exploding federal deficit has some longtime GOP supporters up in arms. (The nation has swung from a \$ 237 billion surplus when Bush took office to a projected \$ 530 billion deficit by the end of the year.) About half of the CEOs whom FORTUNE polled said they were "extremely or very concerned" about the deficit, and 89% believed it is a political liability for Bush. Conservative commentators Rush Limbaugh and Bill O'Reilly have criticized Bush over the issue. And though they are hardly a reliable indicator, Internet political discussion boards are full of postings by people claiming to be longtime Republicans who say they are going to vote for Kerry or a third party this November because of it. Jim Harshfield, a 53-year-old real estate manager and registered Republican from the Detroit suburb of Oak Park who voted for Bush in 2000, told FORTUNE that his concern over the deficit is one reason he's considering not voting for Bush this time around. "I think the tax cuts probably will have to be repealed in order to handle the problem in the long run," Harshfield says.

John Samples, a political analyst at the libertarian Cato Institute, dismisses the idea that fiscal conservatives will defect to Kerry en masse. But he says they may simply stay away from the polls, dampening Bush's base of support. "The Bush administration has really done stuff that they always warned people the Democrats would do," Samples says, referring to the rapid expansion in federal spending. He thinks that unless Bush makes a symbolic gesture to win back fiscal conservatives--most probably by vetoing a spending bill or two--he may lose them on Election Day.

Kerry doesn't have to convert vast numbers of Republicans in order to win the presidency. That's because this year's electoral map--those familiar red and blue states--looks a lot as it did in 2000. To win, Kerry has to energize the Democratic base, holding on to most of the so-called blue states that Al Gore took in 2000 and capturing enough independents and disaffected Republicans in a few states where Bush's margin of victory in 2000 was thin. In 18 states, the candidate who won in 2000 did so by a margin of less than 7%. It is in those states, particularly those in the heartland, where the presidency will be won or lost.

Michigan--the state that has the dubious distinction of having lost the most jobs last year and which Al Gore narrowly won in 2000--is one of them. Another is Ohio, the nation's seventh-biggest election-night prize, with 20 Electoral College votes. No Republican has ever been elected President without winning the state. Bush carried it in 2000 by just 3.5%--176,000 votes. But in the past four years, Ohio has lost 250,000 jobs. Bush's approval ratings in the state have fallen below 50% for the first time in his presidency, according to a University of Cincinnati poll. Only 40% of state residents approve of his handling of the economy.

The GOP is preparing a counteroffensive, arguing that Ohio's economy is on the mend and that Bush's tax cuts have helped. Robert Bennett, the Republican's Ohio state party chairman, says the GOP plans to launch an unprecedented ground-level campaign there. The GOP is targeting 21 predominantly rural counties for voter registration and turnout drives. It also has a new strategy to mobilize Republican turnout in the final 72 hours before the election. The idea is to avoid the near disaster of the 2000 election, when Bush's 9-to 12-point lead in the polls suddenly evaporated during the final weekend before the election.

It's early, of course, and a lot of voters out there haven't yet made up their minds. The swing vote can cut both ways. David Furstenberg, a tax lawyer for the building company Pulte Homes, is an independent who voted for Gore in 2000. But this time, he told FORTUNE, he's likely to vote for Bush, "as much as that pains me," because of his concerns about terrorism and defense. He likes the fact that Bush believes in the "concept of good and evil. I believe that too," he says. "I think there are just some people in the world who are evil, and you just have to deal with them. I am not sure Kerry would see things that way."

That's an important point. While Bush may be vulnerable on jobs and the deficit--and those two issues are likely to provide plenty of fireworks throughout the upcoming campaign--they are hardly the only issues on voters' minds. Tax cuts and national security count too, and are both areas where Bush is perceived to be strong (as FORTUNE's CEO poll indicates). Kevin Geddings, a political consultant who once worked as chief of staff for South Carolina's former Democratic governor Jim Hodges, says that in order to win, Kerry must convince people that he's willing to do whatever it takes to safeguard the country. If he can't do this, he says, Kerry can talk all he wants about job losses, and people still won't vote for him. "Voters have figured out that Presidents on their own don't make or break the economy," Geddings says. "But Presidents do decide on their own how to use American power to keep them safe."

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