

# MMBI ELECTION PULSE SURVEY

RSM US MIDDLE MARKET BUSINESS INDEX SPECIAL REPORT

2021



U.S. CHAMBER OF COMMERCE



# MMBI ELECTION PULSE SURVEY:

## OPTIMISM IN THE MIDDLE MARKET AMID EXPECTATION OF CHANGE

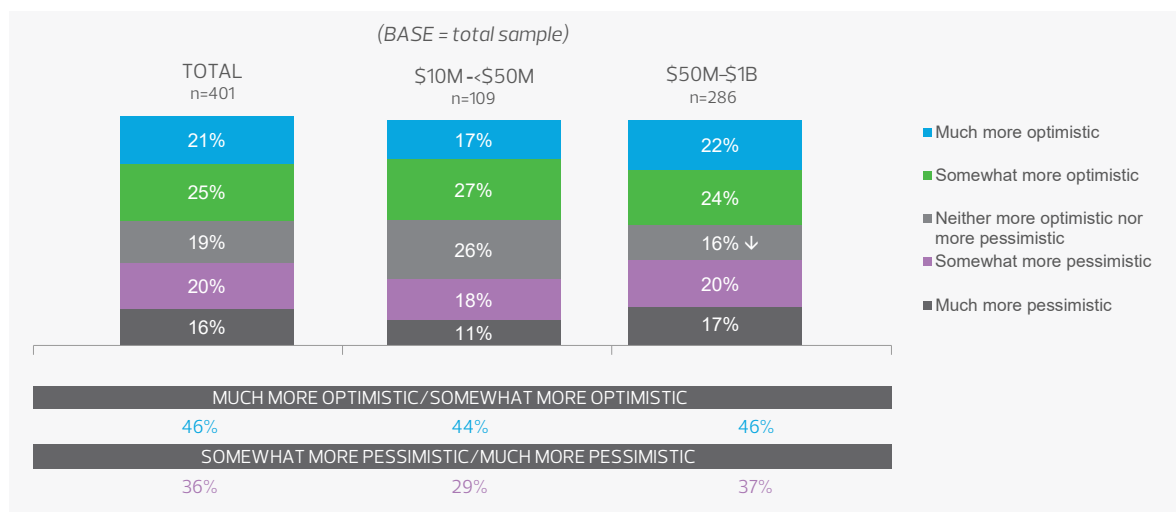
**WITH JOE BIDEN INAUGURATED** as president of the United States, senior executives at middle market businesses are optimistic about the American economy, even as they expect substantial shifts under the new administration, according to a recent RSM survey.

The survey—fielded from Nov. 19 to Dec. 2, 2020, with 401 executives responding—captures the dynamic changes taking place across the middle market and the broader economy. Over the past six years, responses to special questions included in the proprietary RSM US Middle Market Business Index surveys reflect the extraordinary evolution in the preferences and opinions of midsize companies regarding health care, taxes and racial equality, and now, the recent presidential election.

The executives' responses to the recent survey presented a generally positive view that they expected the economy to grow under a Biden administration. A plurality of 46% said that they were much more optimistic or somewhat more optimistic when asked how their expectations for the economy had changed due to the results of the election.

The online survey covered a random and representative sample of the middle market. Nonfinancial businesses had annual revenues of \$10 million to \$1 billion a year. Financial companies had assets under management of \$250 million to \$10 billion. Responses were parsed by smaller and larger ends of the middle market.

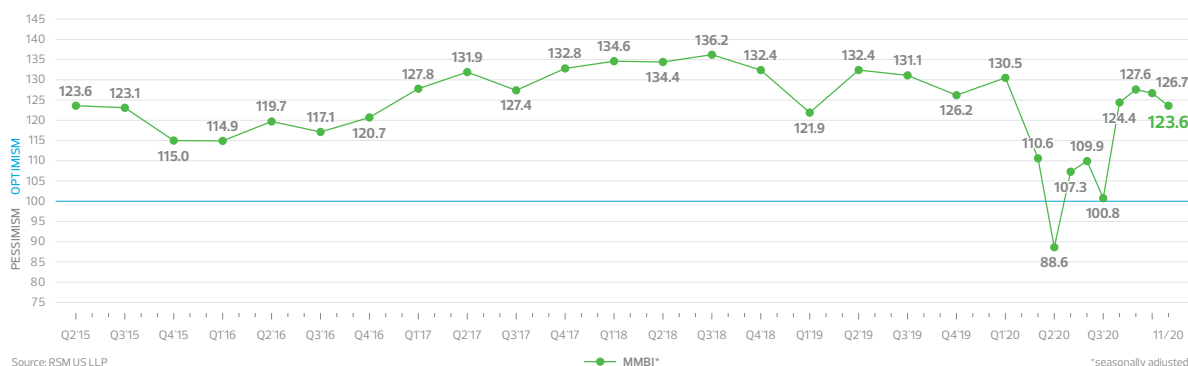
### How expectations for U.S. economy changed due to results of the election



A2 How, if at all, have your expectations for the U.S. economy changed due to the results of the election?  
ARROWS = Significantly higher/lower than \$10M-<\$50M at .05 level of significance



## RSM US MIDDLE MARKET BUSINESS INDEX



At the same time, the executives told RSM that they anticipated substantial changes in the government's approach to a range of issues. Many of these changes would be reversals of policies adopted by the Trump administration, including its handling of the coronavirus pandemic, the tax code, tariffs, financial markets reform, immigration and the environment.

"The middle market has experienced unprecedented challenges in the past 10 months that have completely altered the landscape for businesses in the United States and around the world," said RSM US Chief Economist Joseph Brusuelas. "The enthusiasm we see in this survey reflects businesses' desire for action on the legislative and policy fronts, action that often accompanies a change in administration." "One executive involved in the construction industry reflected this buoyant outlook in his comments to RSM: "We as a nation are world leaders. I am sure once this COVID-19 pandemic is finished and dealt with we will have a rise in everything."

**"The most important thing we can do now is continue the momentum on bipartisan legislation that will restore public health and get the economy back to firing on all cylinders."**

— Neil Bradley,  
U.S. Chamber of Commerce  
executive vice president and chief policy officer

But some executives had a more tempered outlook. Of those surveyed, 36% said they were somewhat more pessimistic or much more pessimistic about the economy. Those executives with these views expressed concern about the economic impact that changes from the Biden administration would bring.

"Expect higher tax rates, more regulations, and higher wages and health insurance costs," said an executive from a manufacturing firm. Another executive, in the educational services industry, echoed the concern about taxes: "I'm worried about Biden's possible tax plan."

Still, the survey reflected a general optimism about the prospects for the economy.

"With the middle market business community feeling mostly positive in early 2021, the most important thing we can do now is continue the momentum on bipartisan legislation that will restore public health and get the economy back to firing on all cylinders," said Neil Bradley, U.S. Chamber of Commerce executive vice president and chief policy officer. "The recent pandemic relief package illustrates how we can break partisan gridlock in the new Congress. It's time to move forward on additional bipartisan issues like infrastructure to further spur growth, create jobs, and strengthen the economy for the long term."







## SUBSTANTIAL CHANGES EXPECTED

What is clear, though, is that the vast majority of respondents acknowledged the enormous overhang of the coronavirus pandemic on the economy—and the need to address it. An 87% majority of those surveyed said that substantial changes in COVID-19 mitigation efforts over the next two years were somewhat likely or very likely.

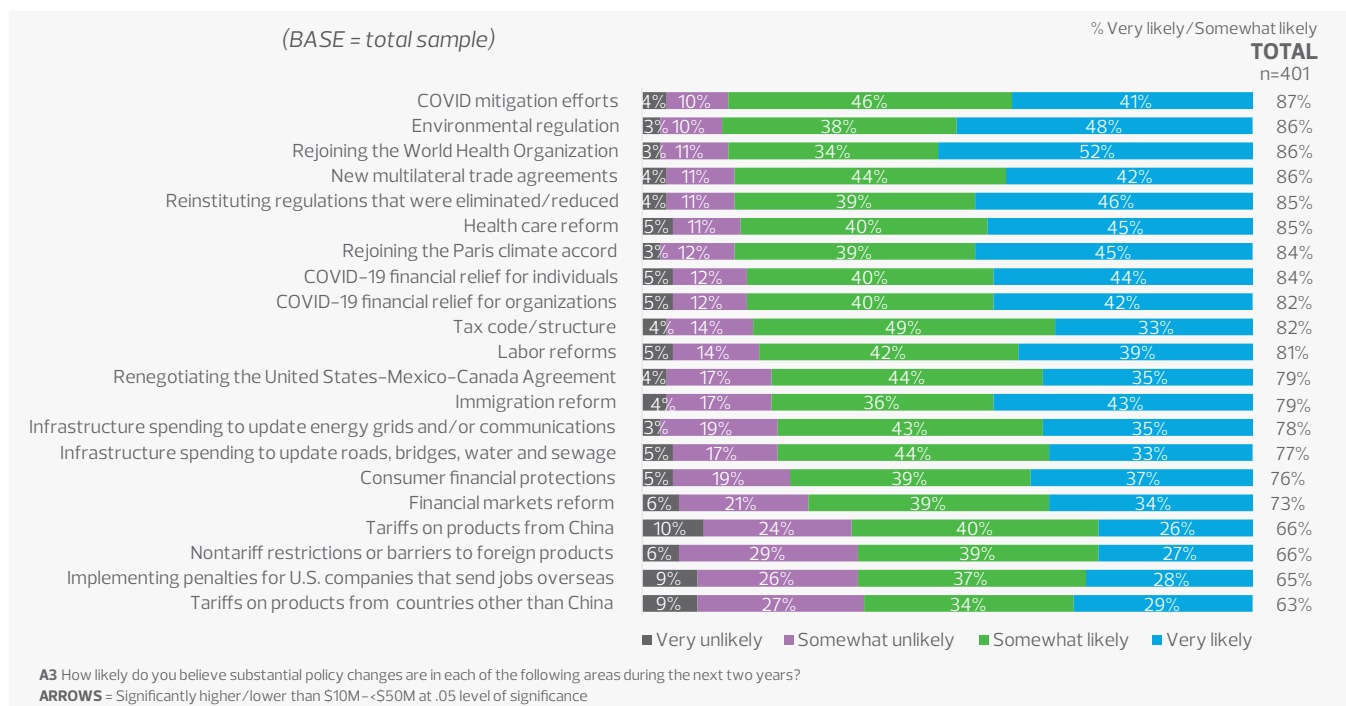
“My expectation for the U.S. economy is high because after COVID-19, we will improve our economy,” said an executive in the real estate and rental and leasing industries.

But the prospect of change extended beyond efforts to mitigate the vast human and economic toll of the

coronavirus. Executives also saw a likelihood of a reversal in a range of policies that were championed by the Trump administration, including:

- **Taxes:** Changes in the nation's tax code
- **Regulations:** Reinstating regulations that were eliminated or reduced in areas like the environment, labor, health care, consumer financial protections and immigration
- **Rejoining the global community:** A reversal of tariffs and trade policies, and an expectation of rejoining the Paris climate accord

### Likelihood substantial changes during the next two years

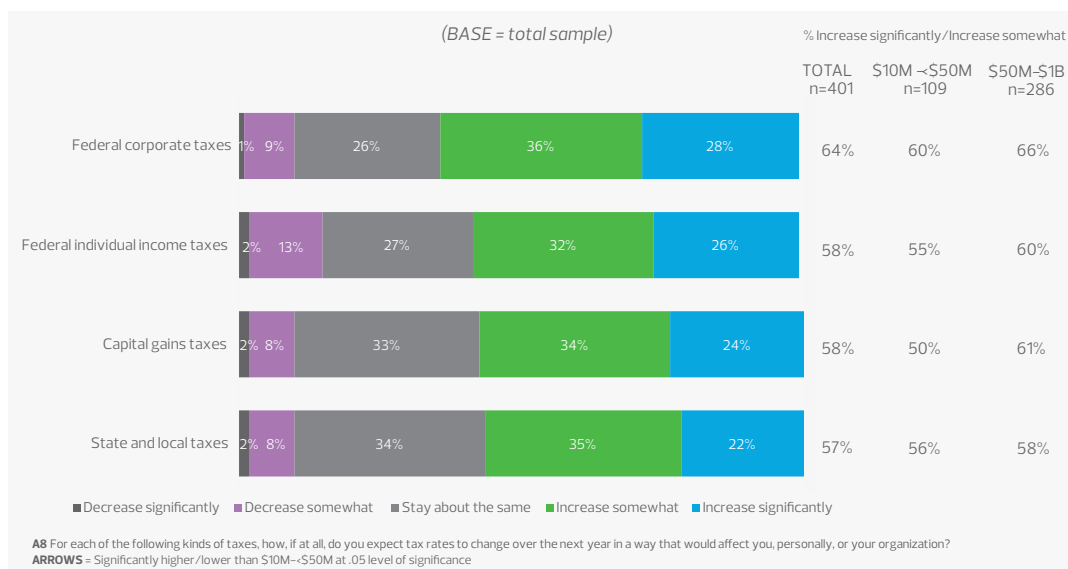


# TAX REFORM

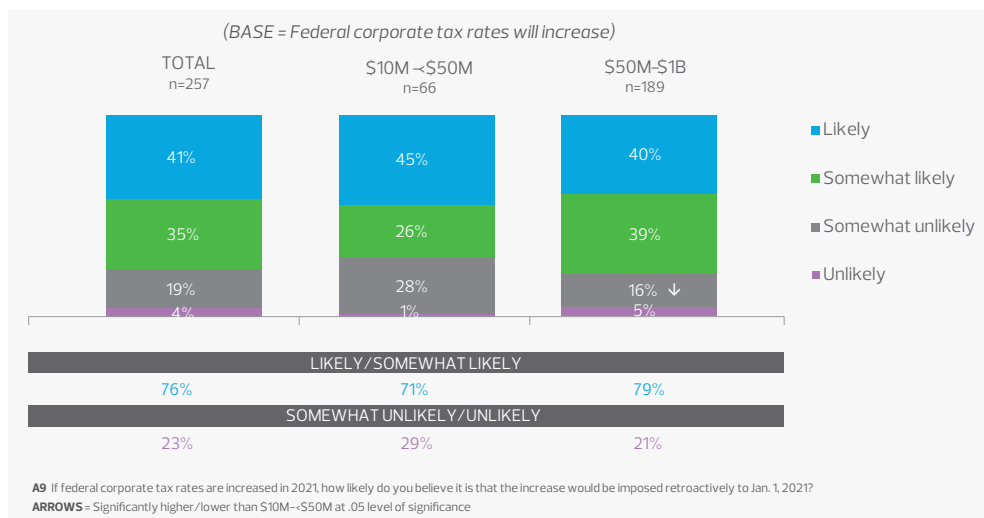
Consider the executives' views on taxes: 82% of those polled said they expected that changes were coming in the tax code, with 49% saying the changes were somewhat likely and 33% saying they were very likely. Biden has been clear about his intent to reform the tax code, including a call for raising taxes on higher-income earners. Indeed, a majority of respondents said they expected taxes to increase somewhat or significantly. These include federal corporate taxes (64%), federal individual income taxes (58%), capital gains taxes (58%), and state and local taxes (57%).

In addition, a 76% majority said that it was likely or somewhat likely that an increase in the corporate tax rate would be imposed retroactively to Jan. 1, 2021. While this would not be without precedent, we believe that it would be unlikely given the very slim Democrat majorities in Congress and still nascent economic recovery. The survey was conducted before the results of the runoff elections for Georgia's two Senate seats on Jan. 5, 2021, were known. The Democratic candidates' subsequent sweep of the two races gave the Democrats control of the Senate and increased the possibility of the Biden administration achieving more of its agenda; although, what can be accomplished with such a closely divided Senate remains to be seen.

## How expect tax rates to change over next year in a way that would affect you or your organization



## Likelihood federal corporate tax increase would be imposed retroactively to Jan. 1, 2021



The executives said that potential changes to the tax code represented both the greatest risk and the greatest opportunity among the policy changes being considered. Just over one quarter, or 27%, listed the possible changes as the greatest opportunity for their business, and just under a quarter, or 22%, saw them as the greatest risk.

## MIDDLE MARKET INSIGHT

Executives said that potential changes to the tax code represented both the greatest risk and the greatest opportunity to their businesses.

The question about the greatest opportunity and greatest risk in policy changes also revealed a divide within the middle market, depending on size. For example, potential policy changes to nontariff restrictions or barriers to foreign products were seen as a greater risk to larger middle market companies than to their smaller counterparts, by 15% to 5%, respectively. Larger middle market companies that participated in the survey were categorized as those with annual revenues of \$50 million to \$1 billion. Smaller middle market companies had annual revenues of \$10 million to just under \$50 million.

Another example of this divide was evident in COVID-19 relief for individuals, which was seen as a greater opportunity for smaller middle market companies than for their larger counterparts, by 28% to 18%, respectively.

### Policy changes present greatest opportunity and greatest risk to organization

(BASE = total sample – select up to three)

	Greatest opportunity total (n=401)	Greatest risk total (n=401)
	%	%
Tax code/structure	27	22
COVID-19 financial relief for organizations	23	10
COVID-19 financial relief for individuals	20	10
Infrastructure spending to update energy grids and/or communications	18	12
Immigration reform	16	14
Environmental regulation	16	15
COVID-19 mitigation efforts	14	10
Infrastructure spending to update roads, bridges, water and sewage	14	9
Implementing penalties for U.S. companies that send jobs overseas	13	15
Financial markets reform	13	10
Nontariff restrictions or barriers to foreign products	10	12
Tariffs on products from countries other than China	10	21
Tariffs on products from China	9	19
Labor reforms	8	10
New multilateral trade agreements	8	7
Health care reform	7	5
Reinstituting regulations that were eliminated or reduced during the Trump administration	7	11
Consumer financial protections	7	8
Renegotiating the United States-Mexico-Canada Agreement	7	8
Rejoining the World Health Organization	6	4
Rejoining the Paris climate accord	5	7

A5 In which of the following areas would policy changes present the greatest opportunity and the greatest risk to your organization? Please select up to three in each column.

ARROWS = Significantly higher/lower than \$10M–\$50M at .05 level of significance

Overall, though, executives' comments on what risks and opportunities they faced reflected a broad expectation of higher taxes, and the need to adapt.

"We will take the policy and learn to function in it as best we can," said one executive in the construction industry, "but I'm aware we will be paying more taxes soon." Another executive, in health care and social assistance, was less sanguine: "I am concerned about tax implications for our company."





## REGULATIONS

The executives seemed to have the greatest expectation for change in areas that tend to fall under the control of the executive branch, including environmental regulation, labor, health care, financial reform and immigration.

When asked about the likelihood of substantial changes over the next two years, 86% of the executives said they expect changes in environmental regulation, behind only mitigating the effects of COVID-19. This expectation was matched by the response to the general question that asked if the Biden administration would reinstitute regulations that were eliminated or reduced under the Trump administration. Similar to views expressed on environmental regulation, 85% of executives responded that they expected such reversals in general.

These regulatory changes, Brusuelas said, affect industries differently. While the cost of regulation on a macroeconomic basis is roughly about 0.1%, Brusuelas said, the costs are asymmetrical industry by industry. If a business has exposure to the energy sector, for example, an increase in regulation could become quite costly, Brusuelas said.

## REJOINING THE GLOBAL COMMUNITY

Finally, there was another area of broad consensus among the executives—that they expected the United States would rejoin world pacts on trade, health and

the environment. In several significant areas, the Trump administration withdrew from global, multilateral agreements, and executives said they now expect reversals on these fronts, including:

- Rejoining the World Health Organization (86%)
- New multilateral trade agreements (86%)
- Rejoining the Paris climate accord (84%)
- Renegotiating the United States–Mexico–Canada Agreement (79%)

The topic of China presented a point of dissension from the executives' views on expected policy reversals. About two-thirds, or 66%, said they expected substantial changes in tariffs on products from China. And 63%—the lowest percentage among the categories in the survey question—said there was a likelihood of substantial changes to tariffs on products from countries other than China.

In short, the executives seemed to expect an effort to rejoin the global community on trade, but not to completely abandon the Trump administration's use of tariffs, particularly on China.

"The longstanding trade war between the United States and China will not be unwound easily by the advent of a new administration in the White House," RSM's Brusuelas said. "The impact of protracted tariffs has led to significant changes in supply chains worldwide, changes that are not easily reversed."



# THE IMPACT ON BUSINESSES

All of these changes could ultimately affect the fortunes of middle market businesses.

Positive expectations were most pronounced around COVID-19 relief efforts. More than two-thirds of the executives, or 71%, said that they expected a strong positive or moderate positive impact on their business from COVID-19 financial relief for organizations. The same strong or moderate positive impact was anticipated with respect to COVID-19 mitigation efforts (68%) and COVID-19 financial relief for individuals (67%).

One executive in the construction industry, when asked what he was hoping for, saw the broad benefits of containing the spread of the virus: "Hopefully getting a handle on COVID-19 so the economy can come back."

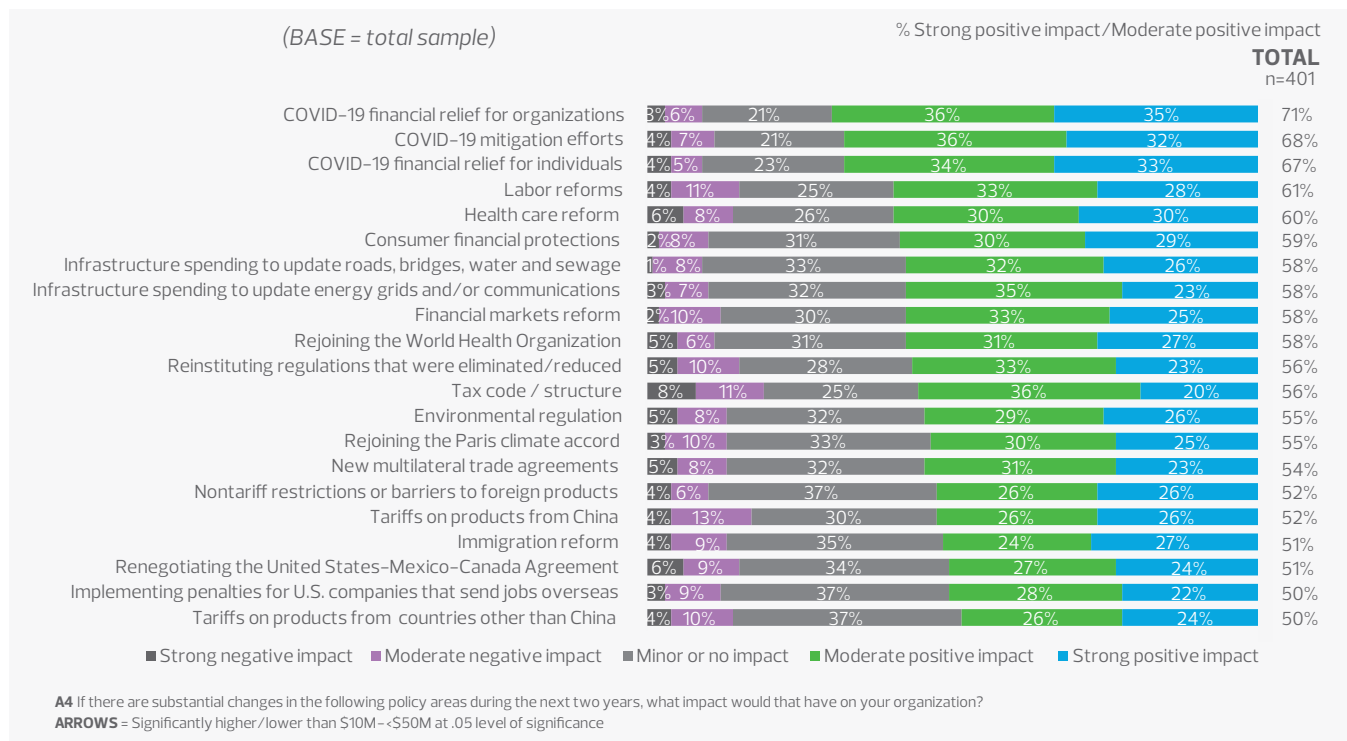
At the same time, a majority expected a strong or moderate positive impact on their organizations from a new, more vigorous approach on regulations. These included labor reform (61%), health care reform (60%), financial markets reform (58%), environmental regulation (55%) and immigration reform (51%).

Positive views extended to expectations for increased infrastructure spending to update the nation's roads, bridges, energy grids and communications networks. An infrastructure spending package has been a long-sought goal by many in Congress, but an agreement has been elusive, despite interest from the prior two administrations.

Almost three in five executives, or 58%, said that infrastructure spending to improve roads, bridges, water and sewer systems would have a strong or moderate positive impact on their businesses. A similar ratio had the same response to improvements in energy grids and communications networks.

Brusuelas [has written](#) that he anticipates a major policy initiative to create an infrastructure bank that will support the modernization of the nation's crumbling infrastructure. "The focus will revolve around what we call I2E," he wrote, "or the rebuilding of the roads, bridges, transit, ports and waterways (big I); the expansion of digital broadband and the establishment of 5G (little i); and the integration into all of the above smart and renewable resource use (E)."

## Impact substantial changes would have on organization





## THE TAKEAWAY

In the end, middle market executives' views of what they expect from a Biden administration reflected many of the positions that Biden articulated in his campaign, and the executives remain generally optimistic.

What's clear is that they are anticipating significant changes in the next two years, whether those changes involve stronger efforts to contain COVID-19, improving the nation's infrastructure, revising the tax code, a more vigorous regulatory environment or a return to multilateral negotiations on the world stage.

RSM US LLP (RSM) and the U.S. Chamber of Commerce have joined forces to present the RSM US Middle Market Business Index (MMBI)—a first-of-its-kind middle market economic index developed by RSM in collaboration with Moody's Analytics. Our special reports are derived from a topic-specific question set that varies each quarter.

For more information on RSM, please visit [www.rsmus.com](http://www.rsmus.com).

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