



NABE Economic Policy Survey[®]

National Association For Business Economics

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EMBARGOED UNTIL:
Friday, August 15, 2003
11:00 AM Eastern

NABE PANEL: FEDERAL DEFICIT A RISK, MONETARY POLICY ABOUT RIGHT, HEALTH CARE NEEDS MAJOR REFORM

August 2003

The NABE Economic Policy Survey presents the consensus of a panel of 194 members of the National Association for Business Economics. Conducted semiannually, this survey was taken July 25-August 6. May be reprinted in whole or in part with credit given to NABE. View the survey results, including complete tabulations, online at www.nabe.com. This is one of three surveys conducted by NABE. The other two are the NABE Outlook and the NABE Industry Survey. Laurie Matthias King of Capital Guardian Trust Company conducted the analysis for this report.

“The increasing federal deficit is the top risk NABE panelists see facing the U.S. economy, although the threat is more a long-term than short-term concern,” said **Tim O'Neill**, President of NABE and Chief Economist, BMO Financial Group. “Two-thirds of our panelists feel monetary policy is about right and support leaving it unchanged over the next six months. They feel, however, that the Fed could improve its communications especially of unconventional policy measures being considered. The majority of panelists think the U.S. healthcare system needs fundamental reform, particularly to stem rising costs. This can be best accomplished through the spread of consumer-directed initiatives.”

Survey Highlights

The growing federal deficit was the biggest problem facing the U.S. economy. The increasing federal deficit and rising unemployment topped the list of concerns panelists had about the U.S. economy, while worries about international military operations and homeland security have faded.

Productivity gains and a technological lead were seen as the country's greatest strengths. These two categories have topped the list of strengths over the past two years.

Two-thirds of our panelists believe monetary policy is about right. Nearly the same percentage would like to see policy unchanged over the next six months. Just over half of the panelists think short-term interest rates will remain about where they are today and 43% are worried short-term interest rates may rise.

Unconventional monetary policy. When asked about the Fed's potential use of unconventional monetary tools, most respondents did not think Fed officials had done a good job communicating their options. Since the majority of respondents don't think monetary policy needs to be more stimulative, few look for unconventional tools to be used in the near term.

The majority of panelists thought the U.S. healthcare system needed fundamental reform, particularly with regard to higher costs. More government control was NOT advised, but panelists expressed support for the spread of consumer-directed health initiatives such as medical savings accounts and more choice of benefits among a variety of plans.

Survey Details

Greatest Risk to the U.S. Economy

Domestic concerns—the increasing deficit and rising unemployment—topped the list of serious problems facing the U.S. economy. Most respondents (21%) said the growing federal deficit was the most serious risk, up from 11% who worried about excessive government spending and an expanding deficit last spring. Unemployment was cited as the most serious concern by 16% of the survey respondents.

Problems	Survey Date			
	Mar 2002	Aug 2002	Mar 2003	Aug 2003
Excessive growth in govt spending/growing federal deficit	11%	NA	11%	21%
Unemployment	NA	NA	NA	16%
International military operations/homeland defense	NA	3%	41%	13%
Overcapacity	9%	5%	8%	10%

Strengths in the U.S. Economy

Productivity gains and our country's technological lead were considered the economy's greatest strength by 25% and 18% of survey respondents, respectively. These two categories have topped the list of strengths over the past two years. Deep capital markets and a flexible labor market garnered 12% and 11% of the responses.

Strengths	Survey Date			
	Mar 2002	Aug 2002	Mar 2003	Aug 2003
Productivity gains	25%	25%	28%	25%
Technological lead	29%	21%	26%	18%
Flexible labor markets	9%	14%	10%	11%
Deep capital markets	12%	24%	8%	12%

Monetary Policy Is About Right . . . But End of Cycle May Be at Hand

Two-thirds of our panelists said monetary policy is about right, which is a somewhat less favorable review than last March when 81% of our panelists agreed policy was about right. Worry is growing concerning too much stimulus: this month, 23% believed monetary policy is too stimulative compared to only 9% who thought so last March.

Current monetary policy is:

(percent reporting)

Date	Too restrictive	About right	Too stimulative
August 2003	9	68	23
March 2003	8	81	9
August 2002	8	77	12
March 2002	3	78	17
August 2001	17	67	11
March 2001	34	56	7
August 2000	9	76	12
February 2000	5	62	32
August 1999	3	74	22
March 1999	2	75	23
October 1998	7	82	11
May 1998	2	76	22
February 1998	8	86	6
November 1997	4	83	7
August 1997	6	85	7
May 1997	12	74	14
February 1997	7	83	10
November 1996	14	77	8

Looking ahead, a majority of respondents (60%) would prefer monetary policy to remain unchanged over the next six months. Just over half think short-term interest rates will remain about where they are today, but 43% are worried short-term interest rates may increase.

Challenges to Monetary Policy

Given the low absolute level of interest rates and the Fed's stated concern about the risks of deflation, we asked our panelists about the Fed's potential use of unconventional monetary policy tools. The resounding response to this general category of questions was that most respondents did not think Fed officials had done a good job in communicating unconventional policy options.

Most respondents did not believe the Fed would need to use unconventional tools over the next six months, which may reflect their satisfaction with current policy. When asked specifically about the Fed purchasing longer-term government debt to lower interest rates, there was much uncertainty about this potential tool's effectiveness. (Thirty-eight percent were for it, 33% against and 27% didn't know if it would work.)

In a further nod to the importance of clarity, better communication from the Fed to the markets was cited as the main reason panelists would support an inflation target if the Fed adopted one.

Fiscal Policy

Respondents were split on whether current fiscal policy was too stimulative (49%) or about right (40%). Of those who thought fiscal policy was too stimulative, about half thought it would result in higher inflation over the next six months while half did not. The majority's (63%) preference going forward was for fiscal policy to become more restrictive, but only 25% thought this would actually happen. Thirty-nine percent expect fiscal policy to be more stimulative over the next two years.

Challenges to Long-term Fiscal Policy

Multiyear budget deficits are now a reality, as baby boomers are now 10 years away from retirement. In their new book, *Fiscal and Generational Imbalances: New Budget Measures for New Budget Priorities*, Jagadeesh Gokhale of the American Enterprise Institute and Kent Smetters of Wharton estimate the present value of Medicare and Social Security liabilities at \$43 trillion, equal to household net worth.

To address this long-term threat to U.S. economic performance, panelists chose raising the retirement age as the most effective tool policymakers could use to address the fiscal imbalance from among the following choices: raising taxes, cutting expenditures, raising the retirement age, means testing social programs, raising the age for Medicare eligibility, giving vouchers to Medicare recipients.

While crowding out is an important issue over the long term, a majority of panelists felt near-term considerations were more important. That said, panelists were uncomfortable with a rising deficit and a majority would like to see a measure similar to the Budget Enforcement Act of 1990 adopted to ensure fiscal responsibility.

Current Account Deficit

The U.S. current account is greater than 5% of U.S. GDP. Forty-six percent of our panelists believe this is a threat to financial stability, while 45% do not think so. Those who thought it was a threat said the most effective way to counter the size of the current account deficit would be to orchestrate global policies aimed at growth. Panelists thought raising tariffs and subsidizing exports were bad ideas.

Health Care

NABE introduced a special topic into this economic policy survey and questioned our panelists about healthcare in the United States. Given the choice of high cost or the large number of uninsured Americans, 57% felt high cost was the most important issue to address and 42% were more concerned with the increasing number of uninsured. That a survey of economists did not escalate the issue of high cost to a greater degree may indicate that most people in America, even economists, are conditioned to think of healthcare differently from other choices we make each day, i.e., noneconomically.

Regarding high costs, the most blame was assigned to insurance and third-party payer systems that left consumers with little or no incentive to hold costs down. Reasons of medium importance for high and rising healthcare costs were that healthcare providers lacked incentives to economize, improved technology allowing better outcomes, and excessive liability costs.

Costs were indeed seen as harmful to companies' profitability. More than 90% of respondents said escalating healthcare costs would be at least somewhat significant to companies' profit margins over the next two years.

What's the answer?

Two-thirds of respondents felt the answer to the problems in our healthcare system needed to involve fundamental changes in both healthcare delivery and its financing.

We asked panelists to identify specific changes to the U.S. healthcare system that would provide for improvements in cost, access, or quality. There was an overwhelming response against government involvement; neither nationalizing the healthcare system nor government regulation of insurance premiums and drug prices received much support. Most panelists advocated the spread of consumer-directed health insurance, which would give more incentives, choices, and responsibility for their healthcare to consumers.

Expectations for the effectiveness of pending Medicare legislation to improve care for retirees and disabled citizens were mixed. There was a strong expectation, however, that the cost of a prescription drug benefit will be significantly greater than \$400 billion that is the Federal government's present projection.

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