NABE Economic Policy Survey
National Association For Business Economics

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EMBARGOED UNTIL:
Thursday, March 25, 2004
12:01 AM Eastern

NOTE: THE SURVEY RESULTS WILL BE RELEASED IN CONJUNCTION WITH NABE'S 2004 WASHINGTON ECONOMIC POLICY CONFERENCE—MAR. 25-26, CAPITAL HILTON HOTEL. THE TWO-DAY CONFERENCE FEATURES TREASURY SECRETARY JOHN SNOW, FED GOV DONALD KOHN, COMPTROLLER GENERAL DAVID WALKER, SEC COMMISSIONER HARVEY GOLDSCHMID, FDIC CHAIRMAN DONALD POWELL, CEA CHAIR GREGORY MANKIW, CBO DIRECTOR DOUGLAS HOLTZ-EAKIN AND OTHER LEADERS FROM THE PUBLIC AND PRIVATE SECTORS. REGISTRATION IS COMPLIMENTARY FOR WORKING PRESS. PROGRAM AT WWW.NABE.COM.

# NABE Panel: Job Growth, Deficits and Terror Remain Biggest Risks; Free Trade Not a Problem

March 2004

*The NABE Economic Policy Survey presents the consensus of a panel of 203 members of the National Association for Business Economics. Conducted semiannually, this survey was taken March 1-5, 2004. 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.* ***David Wyss*** *of Standard & Poor's and* ***Laurie Matthias King*** *of Capital Guardian Trust Company conducted the analysis for this report.*

"The major economic risk has now moved to job growth and the deficit rather than terrorism, according to the latest canvass of NABE members on policy issues," says **Duncan Meldrum**, President of NABE and Chief Economist, Air Products and Chemicals, Inc. "In the longer run, the deficit is joined on the list of worries by the rising elderly population, health care, and education."

## Survey Highlights

**Jobs and federal deficits are the biggest problems facing the U.S. economy this year.** Each of these was picked by 25% of respondents, with 19% stating terrorism was the chief worry.

**In the longer run, the rising elderly population and related health care costs are the primary problems.** The rising elderly population and the concomitant rise in the dependency ratio were the prime long-term worries for 27% of panelists, while 19% focused on health care costs. The federal deficit was chosen by 24%.

**Technology and flexibility are our greatest strengths.** Forty-five percent of NABE respondents felt the strong U.S. technological lead is our biggest strength, while 24% said it was the flexibility of the economy and the labor force.

**Monetary policy is just right.** Nearly three-quarters of respondents said current monetary policy is about right, but were evenly divided about future policy, with 48% believing rates should remain flat over the next six months and 47% saying interest rates should rise.

**Fiscal policy is too loose.** Nearly two-thirds of respondents thought current fiscal policy is too loose, and 77% thought it should become more restrictive going forward. Only 40% thought it *would* become more restrictive, however.

**Free trade is not a problem for jobs.** Over 60% of respondents thought that free trade is having no impact on jobs, while another 31% said it was, but only a little. Only 9% thought free trade was having a significant impact.

**The current account deficit will become a bigger problem.** Over half of the respondents stated that the current account deficit—which measures trade and financials flows—is not a problem yet, but would become one, while the rest of the respondents were divided between those who thought the deficit would never be a problem and those who thought it already was a problem. The most popular cure is to promote overseas growth, with stimulation of direct investment and reforming the U.S. tax system tied for second. Almost all oppose tariffs or export subsidies.

## Survey Details

### Greatest Short-Term Risk to the U.S. Economy

Domestic concerns—the increasing deficit and slow employment growth—again topped the list of serious problems facing the U.S. economy, with each drawing 25% of the vote. Terrorism picked up 19%, higher than the 13% international military operations received seven months ago but less than half its percentage a year ago. Note that the survey was taken before the Madrid bombing. Inflation is low on the list, as are worries about household or corporate debt. Overcapacity has nearly disappeared as a concern.

**Short-Term Risks to the U. S. Economy**
(percent of survey panelists responding)

| | Survey Date | | | |
|---|---|---|---|---|
| | Aug 2002 | Mar 2003 | Aug 2003 | Mar 2004 |
| Excessive growth in govt spending/growing federal deficit | NA | 11% | 21% | 25% |
| Unemployment/employment growth | NA | NA | 16% | 25% |
| International military operations/homeland defense/terrorism | 3% | 41% | 13% | 19% |
| Excessive household/corporate debt | 7% | 5% | 3% | 6% |
| Inflation | NA | NA | 1% | 6% |
| Overcapacity | 5% | 8% | 10% | 1% |

### Greatest Long-Term Risk to the U.S. Economy

We separated long-term concerns from short-term for this survey. Deficits and demographics dominated the long-term risks, with 27% citing the growth of the elderly population and another 19% health care costs. The federal deficit was the primary concern of 24% of the respondents.

**Longer-Term Challenges to the U.S. Economy**
(percent of survey panelists responding)

| | Survey Date |
|---|---|
| | Mar 2004 |
| Growth of elderly population/dependency ratio | 27% |
| Federal deficit | 24% |
| Health care | 19% |
| Education system | 12% |

Although only 12% of respondents cited the education system as the biggest long-term worry, 85% said that education reforms are necessary to maintain the current standard of living of our citizens.

**Strengths in the U.S. Economy**

Productivity gains and our country's technological lead were considered the economy's greatest strengths by 45% of survey respondents. This category has topped the list of strengths for more than two years. A flexible economy and deep capital markets garnered 24% and 11% of the responses, respectively.

**U.S. Economic Strengths**
(percent of survey panelists responding)

| | **Survey Date** | | | |
|---|---|---|---|---|
| | Aug 2002 | Mar 2003 | Aug 2003 | Mar 2004 |
| Productivity/technology | 46% | 54% | 43% | 45% |
| Flexible labor markets/economy | 14% | 10% | 11% | 24% |
| Deep capital markets | 24% | 8% | 12% | 11% |

**Monetary Policy Is About Right**

Two-thirds of our panelists think monetary policy is about right, about the same as last August. Worry is growing concerning too much stimulus: in this survey, 28% believed monetary policy to be too stimulative compared to only 9% who thought so last March.

**NABE Panelists Views on Monetary Policy**
(percent reporting)

| | **Current monetary policy is:** | | |
|---|---|---|---|
| **Survey Date** | **Too restrictive** | **About right** | **Too stimulative** |
| March 2004 | 3 | 70 | 28 |
| 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, half of respondents (48%) would prefer monetary policy to remain unchanged over the next six months, while nearly the same number (47%) would prefer it to tighten. Just over half (54%) think short-term interest rates will increase, while 43% expect them to stay the same.

**Fiscal Policy**

Nearly two-thirds of respondents felt current policy is too stimulative, up from half six months ago, while only 6% believe it is too tight. More than three-quarters of respondents believe fiscal policy should become more restrictive over the next two years, up from two-thirds in the last survey. However, only 40% believe fiscal policy will tighten, while 16% believe it will become even looser.

**Panelists Views on Fiscal Policy**
(percent reporting

| | Current fiscal policy is: | | | Fiscal policy should be in two years: | | Fiscal policy is expected to be in two years: | |
|---|---|---|---|---|---|---|---|
| | Aug 2003 | Mar 2004 | | Aug 2003 | Mar 2004 | Aug 2003 | Mar 2004 |
| **Too Stimulative** | 49% | 63% | **Tighter** | 63% | 77% | 25% | 40% |
| **About right** | 40% | 28% | **Same** | 20% | 14% | 35% | 42% |
| **Too tight** | 9% | 6% | **Looser** | 14% | 8% | 39% | 16% |

*Note: Dates refer to survey dates.*

**Trade Deficits and Jobs**
The U.S. current account deficit is now 5% of GDP. Twenty-seven percent of our panelists believe this is not a threat to financial stability, while 21% believe it is. A majority (52%) said it isn't yet, but will be. Those who thought the size of the current account deficit was a threat said the most effective way to counter it would be to orchestrate global policies aimed at growth. Encouraging foreign investment into the U.S. and reforming the U.S. tax system to become more consumption based were also favored. Panelists think raising tariffs and subsidizing exports are bad ideas.

**Ways to Reduce Current Account Deficit**
Average score (1 least effective, 5 most)

| | |
|---|---|
| Orchestrate global growth | 3.6 |
| Encourage foreign investment in US | 3.0 |
| Reform US tax system | 3.0 |
| Persuade China to float yuan | 2.8 |
| Persuade Japan to stop intervention | 2.6 |
| Talk the dollar down | 2.2 |
| Subsidize exports | 1.6 |
| Raise tariffs | 1.3 |

The major threats posed by the trade gap are higher interest rates and slower growth, according to 38% of panelists, while 28% saw a greater risk in the political pressure for trade barriers.

A related issue is the strength of the dollar. Although 38% of panelists said that U.S. policymakers could have little impact on the dollar, 61% of panelists felt policymakers could. However, 51% felt the U.S. should not have a dollar policy, but should let the market set the exchange rate. Thirty-one percent favored a strong dollar policy, while only 18% wanted the government to push the dollar down.

Only 9% of panelists felt that trade was hurting employment significantly, although 31% said it was having at least a small impact. Sixty percent said there was no impact. Only 19% of respondents felt that there should be any protection even for individual sectors of the U.S. economy; of the 19% who said there should be, three-quarters cited national security as the only justification.

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