



NABE Economic Policy Survey[®]

National Association For Business Economics

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NABE Panel to Next President: Concentrate on Terror, not Stimulus

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*The NABE Economic Policy Survey presents the consensus of a panel of 172 members of the National Association for Business Economics. Conducted semiannually, this survey was taken July 23-August 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.*

“Terrorism produces the greatest short term risk to the economy,” says **Duncan Meldrum**, President of NABE and Chief Economist, Air Products and Chemicals, Inc., “and that's where NABE's members believe the next president should spend the most of his effort. We also believe the time has come to tackle reducing the federal deficit, now that it's no longer needed to stimulate the economy. Longer term, the costs related to the aging of the population dominate the challenges to sustaining economic growth.”

Survey Highlights

Terrorism remains the biggest short-term problem facing the U.S. economy this year, according to 40% of respondents, up from 19% in March. The deficit was chosen by 23% of respondents.

We separated long-term from short-term concerns for this survey. 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 23% of panelists (down from 27%), while 22% focused on health care costs (up from 19%). The federal deficit was chosen by 17% (down from 24%) as a significant long-term problem.

Technology and flexibility remain our greatest strengths. Thirty-six percent of NABE respondents felt the flexibility of the economy and the labor force is our biggest strength, while 35% said it is the strong U.S. technological lead.

Monetary policy should get tighter. Although 59% of respondents said current monetary policy is about right, 62% said it should tighten over the next six months.

Fiscal policy is too loose. Two-thirds of respondents thought current fiscal policy is too loose, and 80% thought it should become more restrictive. Only 37% thought it *would* become more restrictive, however.

The new president should concentrate one-quarter of his time on terrorism. We asked what percentage of his time and energy should be spent on different issues. The panel recommended that 25% of his time be spent on the Middle East and terrorism. He should spend 17% on reducing the deficit, 16% on health-care reform, and 14% on social security reform. Energy policy should account for 11% of his attention, trade 8%, and education 6%. No other problem should account for more than 1% of his time.

The deficit cuts should concentrate on spending. Only 32% of respondents recommended raising taxes, while 51% thought spending cuts should be the primary method to cut the deficit. In recommending spending cuts, 50% voted to lower farm subsidies, 11% health care, 9% military, and 21% other non-entitlement spending. On tax reform, 27% recommended moving to a consumption-based tax system. Making the tax cuts permanent attracted 15% of the votes on this issue, with 13% voted to let the tax cuts sunset and 18% to raise taxes. Another 18% voted for a flat tax.

Health-care reform is one of the more divisive issues. Forty-one percent of our panelists voted to institute health-saving plans with a catastrophic insurance back-up. Administrative simplification and a national health service each attracted 17%. In a separate question, 44% favored allowing importation of drugs from Canada, and 31% favored use of more generics.

The social-security issue showed little consensus among economists. Thirty-five percent of respondents voted for privatization of social security, with a safety net. Raising taxes to increase social security funding and cutting entitlements to reduce costs each attracted 27% of the votes.

Raising energy taxes attracted 29% of panelist votes. Twenty-four percent recommended research on and subsidies for alternative energy sources, and 20% opening ANWR (Arctic National Wildlife Refuge) and offshore fields. Only 9% of respondents felt that global warming and oil shortages were overstated as problems, and should be left to the market.

Survey Details

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

Terrorism replaced the deficit and employment growth at the top of the worry list. Terrorism jumped to 40%, near its peak in March 2003. Inflation remains low on the list, as are worries about lack of jobs and household or corporate debt.

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

	Survey Month				
	Aug 2002	Mar 2003	Aug 2003	Mar 2004	Aug 2004
Defense/terrorism	3	41	13	19	40
Govt spending/ deficit	NA	11	21	25	23
Inflation	NA	NA	1	6	9
Unemployment/employment	NA	NA	16	25	6
Excessive household/corporate debt	7	5	3	6	5
Overcapacity	5	8	10	1	1

Greatest Long-Term Challenges to the U.S. Economy

We separated long-term concerns from short-term for this survey. The growth of the elderly population remained at the top of the list of long-term problems, but health care replaced the deficit in second place.

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

	Survey Date	
	Mar 2004	Aug 2004
Growth of elderly population/dependency ratio	27	23
Health care	19	22
Education system/shortage of skilled labor	12	19
Federal deficit	24	17
Competitiveness	NA	6

Strengths in the U.S. Economy

Flexibility replaced productivity gains and our country's technological lead as the economy's greatest strengths. This latter category topped the list of strengths for more than two years. Deep capital markets garnered 10% of the responses, respectively.

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

	Survey Date				
	Aug 2002	Mar 2003	Aug 2003	Mar 2004	Aug 2004
Flexible labor markets/economy	14	10	11	24	36
Productivity/technology	46	54	43	45	35
Deep capital markets	24	8	12	11	10

Monetary Policy Is About Right

Although most of our panelists still think monetary policy is about right, the percentage thinking it is too loose is rising, as 36% now think monetary policy is too stimulative compared to only 9% in March 2003.

NABE Panelists Views on Monetary Policy
(percent reporting)

Survey Date	Current monetary policy is:		
	Too restrictive	About right	Too stimulative
Aug 2004	4	59	36
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, most respondents (62%) would prefer monetary policy to tighten over the next six months, compared with 47% in March. Almost all (92%) think short-term interest rates will increase.

Fiscal Policy

Nearly two-thirds of respondents felt current policy is too stimulative, up from half a year ago, while only 2% believe it is too tight. Eighty percent of respondents believe fiscal policy should become more restrictive over the next two years, up from two-thirds, but only 37% believe fiscal policy will tighten, while 20% believe it will become even looser.

Panelists Views on Fiscal Policy

(percent reporting

	Current fiscal policy is:			Fiscal policy <u>should</u> be in two years:		Fiscal policy is <u>expected</u> to be in two years:	
	Aug 2003	Aug 2004		Aug 2003	Aug 2004	Aug 2003	Aug 2004
Too Stimulative	49	66	Tighter	63	80	25	37
About right	40	29	Same	20	15	35	41
Too tight	9	2	Looser	14	4	39	20

Note: Dates refer to survey dates.

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