



NABE Economic Policy Survey®

National Association For Business Economics

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NABE Panel: Social Security Reform Felt Unlikely March 2005

*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 February 28 - March 8, 2005. 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, **Laurie Matthias King** of Capital Guardian Trust Company, **Kathleen Camilli** of Camilli Economics, and **John Silvia** of Wachovia Bank N.A. conducted the analysis for this report.*

"NABE members, by a narrow margin, now believe that the federal deficit is a larger problem than terrorism," says **David Wyss**, Chief Economist, Standard & Poor's. "Longer term, the costs related to the aging of the population dominate the challenges to sustaining economic growth. However, the panel is doubtful that this Congress will pass needed Social Security reforms."

Survey Highlights

The deficit edged out terrorism as the biggest short-term problem facing the U.S. economy, according to 27% of respondents, up from 23% in August. Terrorism was the biggest fear of 24% of respondents, down from 40% last August. Worries about the deficit ran through the survey responses, indicated as the number 3 long-term fear. It was also evident in many of the responses on Social Security and health-care reform.

In the longer run, the rising elderly population and related health care costs are the primary problems. The rising elderly population and rise in the dependency ratio were the prime long-term worries for 22% of panelists (down from 23%), while 23% focused on health care costs (up from 22%). The federal deficit was chosen by 21% (up from 17%) as the biggest long-term problem, while 16% worry most about the education system.

The panel split on the greatest strength of the U.S. economy. Thirty-five percent of NABE respondents felt the flexibility of the economy and of the labor force is our biggest strength; the same percentage voted for the strong U.S. technological lead.

Monetary policy should get tighter. Although 63% of respondents said current monetary policy is about right, 66% said it should tighten over the next six months. There was near-unanimity (97%) that it would tighten.

Fiscal policy is too loose, according to 76% of respondents. Although nearly 80% thought it should become more restrictive, only 34% thought deficits would actually drop, while 31% expect deficits to increase.

Social security has serious problems, and should be fixed now, according to 69% of respondents. Only 9% thought the system was in crisis, while 20% felt the problem was overstated, and that we should take our time to fix it. The respondents rated the odds of a major social security reform as only 36% during the next two years.

Respondents were split on how to reform the system. On a scale of 1 to 5 (5 most desirable), raising the retirement age proved the most popular suggestion, rating 3.7. In order, other favorites were: eliminating the tax cap on contributions (3.4), indexing to the CPI instead of wages (3.2), reducing high-end payments (3.0), requiring state and local employees to participate (3.0). Privatization rated only 2.7, ahead only of raising the tax rate (2.2) and investing the trust fund in other assets (2.6).

Health-care reform is more critical. Almost all (88%) respondents believe that Medicare and Medicaid cannot survive without major reform. The most popular suggestions were making the high-income elderly pay for more of their own care (3.6 out of 5) and controlling pay-outs to providers (3.2); shifting to a consumption tax (as proposed by Congressman Thomas) was the next most popular, at 2.9. Moving to a national health service (like the United Kingdom) rated only 1.9. Increasing the tax rate (2.4), subsidizing Medicare from general revenues (2.5), and going to a single-payer system (2.6) were also unpopular. The panel was almost equally split on whether social security reform should be done before health care.

Survey Details

Greatest Short-Term Risk to the U.S. Economy: Deficits replaced terrorism as the major short-term risk to the economy. The trade deficit rose sharply in importance, as did energy prices. Economists have largely stopped worrying about employment, household debt, and inflation.

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	Mar 2005
Govt spending/ deficit	NA	11	21	25	23	27
Defense/terrorism	3	41	13	19	40	24
Current account deficit	3	NA	4	5	5	15
Energy	NA	NA	2	3	6	11
Inflation	NA	NA	1	6	9	6
Unemployment/employment	NA	NA	16	25	6	2
Excessive household/corporate debt	7	5	3	6	5	2
Overcapacity	5	8	10	1	1	1

Greatest Long-Term Challenges to the U.S. Economy: We separated long-term concerns from short-term for this survey. Health-care spending and its primary driver, the growth of the elderly population, remain at the top of the list of long-term problems, with deficits moving into third, ahead of education.

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

	Survey Date		
	Mar 2004	Aug 2004	Mar 2005
Health care	19	22	23
Growth of elderly population/dependency ratio	27	23	22
Federal deficit	24	17	21
Education system/	12	19	16
Competitiveness	NA	6	8
Energy		6	4

Strengths in the U.S. Economy: Flexibility and strong productivity gains remains our economy's greatest strengths. Deep capital markets garnered 12% of the responses. All other choices (including democratic government, quality of the work force, legal and judicial institutions) were under 5%.

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

	Survey Date					
	Aug 2002	Mar 2003	Aug 2003	Mar 2004	Aug 2004	Mar 2005
Flexible labor markets/economy	14	10	11	24	36	35
Productivity/technology	46	54	43	45	35	35
Deep capital markets	24	8	12	11	10	12

Monetary Policy Is about Right: The panelists give the Federal Reserve a strong vote of confidence, with 63% saying monetary policy is about right, up from 59% six months ago. Only 3% feel monetary policy is too tight. Looking ahead, most respondents (66%) believe monetary policy should tighten over the next six months, compared with 62% last August. Almost all (97%) think short-term interest rates will increase, with respondents about evenly split between increases of 0.5, 0.75, and 1.0 percentage point over the next six months.

NABE Panelists Views on Monetary Policy
(Percent reporting)

Survey Date	Current monetary policy is:		
	Too restrictive	About right	Too stimulative
Mar 2005	3	63	33
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

Fiscal Policy: Over three-fourths of respondents felt current policy is too stimulative, up from 63% half a year ago, while only 6% believe it is too tight. An even greater percentage (80%) of respondents believe fiscal policy should become more restrictive, but only 34% believe fiscal policy will tighten, while 31% believe it will become even looser. 39% of respondents felt it was very important to get the deficit in balance before the baby boom retires, while 34% said it was somewhat important.

Panelists Views on Fiscal Policy
(Percent reporting)

	Current fiscal policy is:			Fiscal policy <u>should be</u> in two years:		Fiscal policy is <u>expected to be in two</u> years:	
	Mar 2004	Mar 2005		Mar 2004	Mar 2005	Mar 2004	Mar 2005
Too Stimulative	63	76	Tighter	80	80	37	34
About right	28	17	Same	15	11	41	34
Too tight	6	6	Looser	4	9	20	31

Note: Dates refer to survey dates.

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