

NABE Economic Policy Survey

National Association For Business Economics

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NABE Panel: Amid Credit Concerns, A Lack of Consensus on Monetary and Fiscal Policy March 2008

*The NABE Economic Policy Survey presents the consensus of a panel of 259 members of the National Association for Business Economics. Conducted semiannually, this survey was taken Feb. 1-Feb 15, 2008. 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. **Catherine L. Mann**, Brandeis University; **Doug Duncan**, Mortgage Bankers Association; **Richard A. Brown**, FDIC; and **Richard Wobbekind**, University of Colorado, conducted the analysis for this report.*

“NABE members are increasingly concerned over the short-term risks associated with subprime mortgages and other forms of indebtedness, while they continue to cast a wary eye on inflation,” says **Ellen Hughes-Cromwick, NABE President and Chief Economist, Ford Motor Company**. “Fewer respondents support the monetary and fiscal policies being implemented to address the credit situation, with more than one-third saying current monetary policy is too stimulative.”

Survey Highlights

The combined threat of subprime loan defaults and excessive indebtedness remained the number-one concern among survey respondents, with 52% of all respondents echoing this opinion. Inflation was a distant third at just 10%. Some 34% of NABE respondents were most concerned by the lingering effects of subprime mortgages with an additional 18% indicating household and corporate debt was their main concern.

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

	Survey Month				
	Mar 2006	Aug 2006	Mar 2007	Aug 2007	Mar 2008
Combined subprime default & debt*	na	na	na	32	52
*Effects of subprime loan defaults	na	na	na	18	34
*Excessive household/corporate debt	7	5	13	14	18
Inflation	3	12	4	6	10
Defense/terrorism	26	34	35	20	9
Employment issues	1	1	7	5	6
Energy prices	23	29	9	13	5
Current account deficit	13	11	12	8	3
Govt spending/ deficit	14	2	5	3	2

The most serious long-term challenges facing the U.S. economy are health care costs, cited by 22% of respondents, and an aging population, cited by 20%. These responses were similar to survey rankings from 2006 and 2007. Education and skilled labor followed closely, with 19% of respondents listing this as the nation’s most important long-term challenge.

Longer-Term Challenges to the U.S. Economy

(Percent of survey panelists responding)

	Survey Date				
	Mar 2006	Aug 2006	Mar 2007	Aug 2007	Mar 2008
Health care	22	16	25	24	22
Growth of elderly population/dependency ratio	21	17	23	21	20
Education system	16	21	15	17	19
Federal deficit	22	23	19	13	13
Energy issues	8	13	8	9	9
Competitiveness	5	4	4	6	6

While the relative ranking of U.S. economic strengths remains the same as the last survey, the emphasis shifted towards greater concern about capital markets. “Labor force flexibility” gained significantly to 53% while “deep capital markets” declined to 10%.

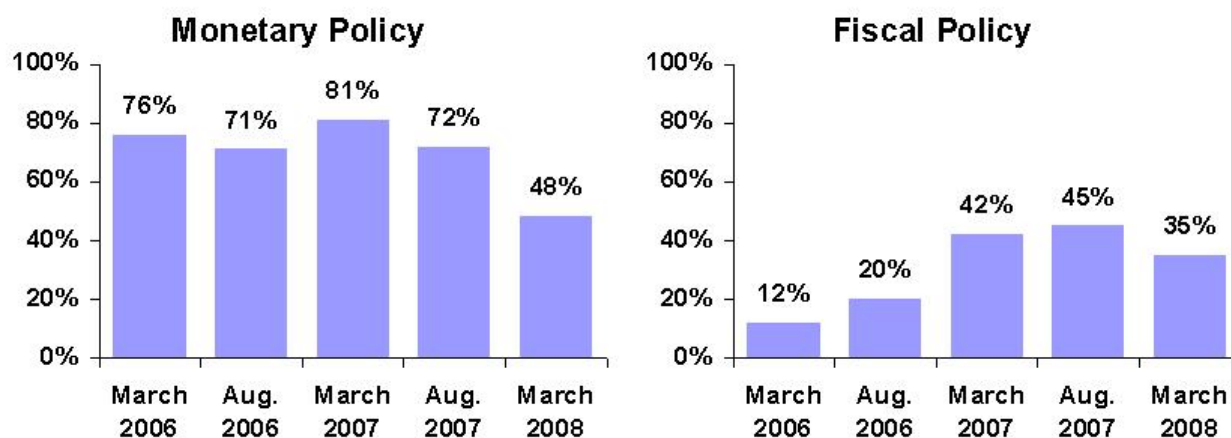
U.S. Economic Strengths

(Percent of survey panelists responding)

	Survey Date				
	Mar 2006	Aug 2006	Mar 2007	Aug 2007	Mar 2008
Flexible labor markets/economy	35	39	28	39	53
Productivity/technology	29	27	27	24	25
Deep capital markets	16	18	17	15	10

NABE members indicate growing unease over the direction of monetary policy. The percent of respondents judging monetary policy to be “about right” dropped to 48% in March from 72% in August, while those calling policy “too stimulative” more than tripled to 34%. Two-thirds of those surveyed expect short-term interest rates to decline over the next six months, with about half of those respondents expecting a cut of between 26 and 50 basis points. The most frequently cited concerns about lower interest rates are the threat of inflation and the sense that lower rates might “bail out investors who should have known better.”

Percent of NABE Panelists Who Consider Current Policy to be “About Right”:



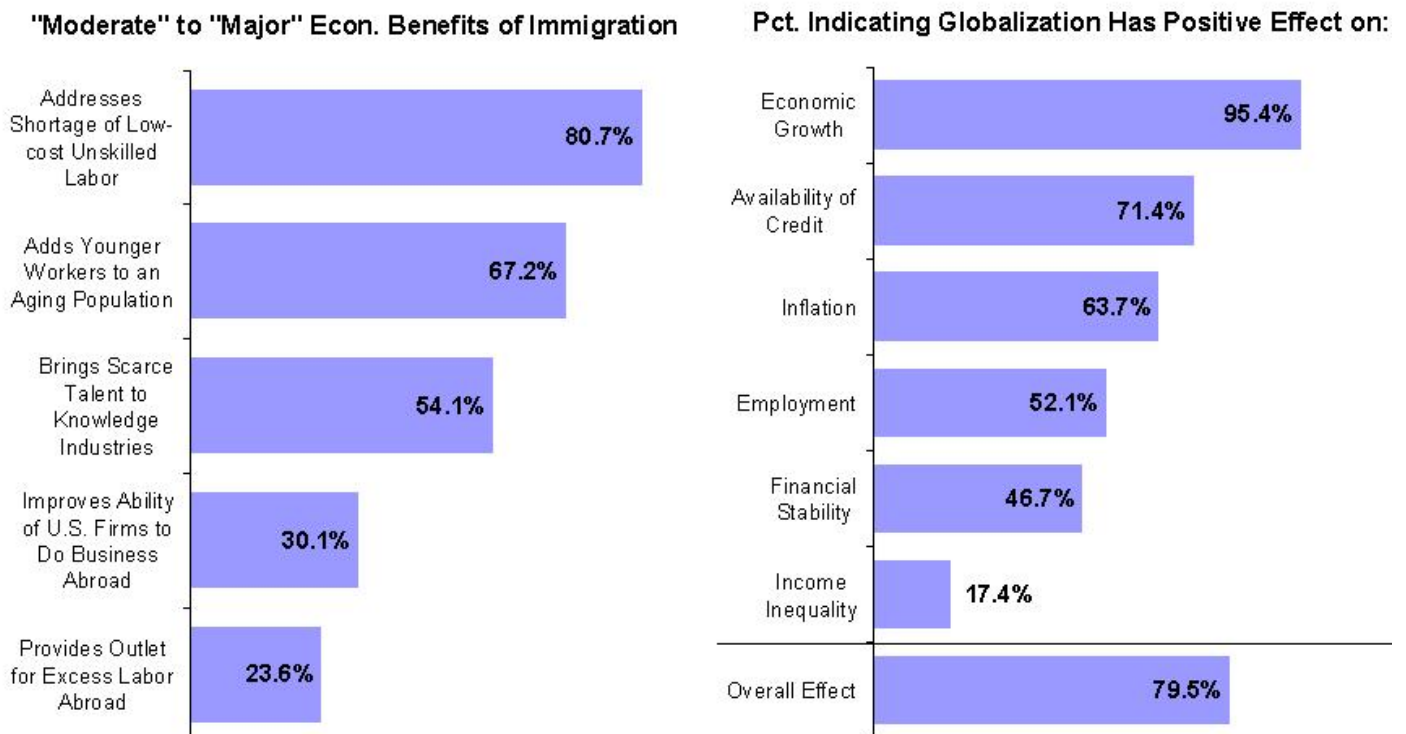
Respondents also expressed misgivings about the direction of fiscal policy. While 49% would prefer to see a “more restrictive” policy over the next two years, almost 70% expect to see a more stimulative fiscal policy over this period. Fiscal policy tools NABE members would find most helpful in the near term include reforming the alternative minimum tax (AMT), health care, and federal entitlement programs, and reducing trade barriers.

More than 91% of survey respondents agreed that the three major U.S. entitlement programs—Social Security, Medicare, and Medicaid—are in need of comprehensive reform. Nearly half felt the need was urgent and 61% suggested Medicare was the top priority. When asked about the effectiveness of various options for Social Security reform, economists felt that raising the age at which benefits could be received and offering incentives to workers for delaying benefit collection were the top two options, in that order. When asked what would be the most equitable of the various reform options, incentives to delay benefit collections ranked at the top while raising payroll taxes on current workers was viewed as least equitable.

NABE members overwhelmingly view globalization of trade, capital flows, and immigration as having a positive, or mostly positive, impact on the U.S. economy. Some 76% view immigration as having a net positive impact on the U.S. economy over the last decade. Respondents indicate that immigration benefits the U.S. economy by addressing the shortage of low-skilled labor (81%), by ameliorating the demographic transition (67%), and by bringing scarce talent to U.S. “knowledge” industries (54%). Indeed, if all illegal immigration were to cease, 71% of NABE respondents opined that U.S. economic growth would slow.

However, immigration is not without costs. Although none of the potential costs of illegal immigration reached even a 50% designation as a “moderate” or “major” burden, NABE respondents tended to view the primary costs of illegal immigration in terms of a burden on social services (48%) and of criminal activity and costs of border security (34%). Only 16% viewed illegal immigration as having a “moderate” or “major” role in displacing U.S. workers.

Some 79% of respondents view globalization of trade and capital flows as having a net positive impact on the U.S. economy over this decade. The main channels through which this benefit accrues are through an increase in economic growth (95%), an increase in the availability of credit (71%), a decrease in inflation (64%), and an increase in employment (52%). However, globalization of trade and capital flows is also not without costs: 45% of the respondents indicate that income inequality is a cost of globalization.



NABE members also were asked to rate their level of concern regarding sovereign wealth funds (SWFs), a source of global capital flows that has received increased attention of late. A plurality of NABE respondents (42%) registered low or relatively low concern over the SWFs, although 22% were “moderately” or “very” concerned. NABE respondents mostly focused on the lack of transparency of these funds (62%). However, with regard to concerns about foreign government control of U.S. business, the NABE respondents are evenly split between little-or-no concern (36%) and very-or-moderately concerned (31%), with 30% neutral.

Despite the gains to the U.S. economy through immigration and trade and capital flows, NABE respondents see policy swinging towards greater protectionist policies. Some 57% saw this as likely for trade policies and 38% for international capital policies. The most serious threats to the continued integration of global trade and capital flows are protectionist policies (77%), financial turmoil (68%), and war and terrorism (65%).

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