



TO: NABE Economic Policy Survey Panelists
FROM: Ellen-Hughes Cromwick, NABE President
SUBJECT: **ECONOMIC POLICY SURVEY, AUGUST 2008**

Following is our policy survey. **PLEASE RESPOND BY Monday, August 11, 2008.** There are three ways to respond:

1. Complete the survey online—go to <http://www.surveystoday.com/policy.html> and follow the directions, or
2. Complete the survey below and send via reply email or
3. Complete the survey below and fax to 440-899-9272.

I. U.S. Problems and Strengths

A. What do you think is the one most serious problem facing the U.S. economy over the next 2 years? *Please answer by placing a "X" in the blank. (Please mark only one.)*

- Energy and other raw materials prices
- Current account deficit and potential impact on the dollar
- Rising inflation
- Federal deficit
- Terrorism and the conflict in the Middle East
- Falling home prices and mortgage loan defaults
- Credit crunch
- Income inequality
- Excessive household and/or corporate debt
- Poorly prepared labor force / shortage of skilled labor
- Other _____

B. What is the biggest long-term challenge to the economy? *(Please mark only one.)*

- International competitiveness and job losses to abroad
- Federal deficits and government spending
- Energy issues, such as global warming and exhaustion of oil supplies
- Growth of elderly population, including health costs, and rising dependency ratio
- Educational inadequacies and shortage of skilled labor
- Rising inflation
- Global overcapacity
- Sustainable global financial system
- Other: _____

C. What do you think is the U.S.'s greatest economic strength today? *(Please mark only one.)*

- Deep capital markets
- Effective monetary policy
- Democratic government
- World's sole remaining super power
- Technological lead and strong productivity
- Flexible economy and labor force
- Legal and judicial institutions
- Quality work force
- Other _____

II. Monetary Policy

A. Do you consider current monetary policy to be: *(Please mark only one.)*

Too stimulative Too restrictive About right Don't know

B. Over the next six months, would you prefer monetary policy to be: *(Please mark only one.)*

More stimulative More restrictive Unchanged

C. Over the next six months, do you expect short-term interest rates to increase, remain about where they are today, or decrease? *(Please mark only one.)*

Increase

By how many basis points?

Increase, not sure about number of basis points

Increase of 25 basis points or less

26–50

51–75

76–100

101–125

126 basis points or more

Decrease

By how many basis points?

Decrease, not sure about number of basis points

Decrease of 25 basis points or less

26–50

51–75

76–100

101–125

126 basis points or more

No change; remain about where they are today

III. Fiscal Policy

A. Do you consider current fiscal policy to be: *(Please mark only one.)*

Too stimulative Too restrictive About right Don't know

B. Over the next two years, would you prefer fiscal policy to be: *(Please mark only one.)*

More stimulative More restrictive Unchanged

C. Over the next two years, do you expect fiscal policy to be: *(Please mark only one.)*

More stimulative More restrictive Unchanged

D. What is your view of the 2008 fiscal stimulus package? *Mark only one.*

Effective in keeping the US out of recession

Likely to be inflationary

Will end up showing up in the import statistics

Not worth the worsening of the fiscal deficit

E. Is another fiscal stimulus package necessary? *Mark only one*

Yes, the US is already in recession

Yes, to keep the US from sliding into recession

Yes, but the Congress will be unable to pass another package

No, another stimulus package is not necessary

Special Questions

IV. Responding to Mortgage Distress and Credit Market Turmoil

- A. The housing bill nearing enactment as of late July calls for the Federal Housing Administration (FHA) to insure up to \$300 billion in new 30-year fixed rate mortgages for at-risk borrowers in owner-occupied homes if lenders agree to write down loan balances to 90% of the homes' current appraised value.
- 1) Will this measure help to reduce the number of mortgage foreclosures?
 Yes No Unsure
 - 2) Will this measure help to stabilize U.S. home prices?
 Yes No Unsure
 - 3) Will this measure hasten or delay the recovery of U.S. housing markets?
 Hasten Delay Unsure
 - 4) Does this measure constitute a bailout of mortgage borrowers?
 Yes No Unsure
 - 5) Is this measure fair to households who do not own their home or have a mortgage?
 Yes No Unsure
 - 6) Does this measure constitute a bailout of mortgage lenders?
 Yes No Unsure
- B. Since late last year, the Federal Reserve has instituted a number of special liquidity facilities to provide longer-term credit to banks and also to make credit available to non-bank financial companies.
- 1) How would you rate the **effectiveness** of these policy initiatives in terms of restoring the liquidity of global financial markets?
 Ineffective, or minimally effective Moderately effective Highly effective
 - 2) How concerned are you about the unintended consequences of these policies in creating **moral hazard**, or an incentive for future risk taking by financial companies?
 Not concerned Somewhat concerned Very concerned
 - 3) Do you think that the extension of Federal Reserve liquidity facilities to new classes of institutions will require **more stringent regulation** of their activities?
 Yes No
- C. Rising mortgage defaults and financial market turmoil have recently called into question the viability of Fannie Mae and Freddie Mac, the two largest government-sponsored enterprises (GSEs) devoted to mortgage finance.
- 1) Given their status as GSEs, do you believe that the U.S. Treasury **should intervene** to prevent a default on the obligations of Fannie Mae and Freddie Mac if default appears likely?
 No, these are not government obligations. Freddie and Fannie should be allowed to fail if that is the market outcome.
 Yes, Freddie and Fannie are too important to fail, and the Treasury should come to their assistance to prevent failure if needed.
 - 2) Would government assistance – in the form of loan guarantees, or the purchase of debt or equity securities by the Treasury – constitute **“nationalization”** of the mortgage GSEs?
 Yes. Any type of Treasury assistance effectively nationalizes Freddie and Fannie.
 Maybe. It would depend on the type and/or scale of the assistance provided.
 No, as long as the assistance were limited and temporary.
 No, assistance to private companies in a crisis does not constitute “nationalization.”

- 3) Over the long term, what type of relationship should be established between the mortgage GSEs and the U.S. Treasury?
- They should be nationalized and made agencies of the U.S. government with the full backing of the Treasury.
 - They should be privatized, and any perceived connection with the U.S. Treasury should be repudiated.
 - They should continue in their present status as government-sponsored enterprises without the explicit backing of the Treasury.
 - They should continue in their present status as government-sponsored enterprises with the explicit backing of the Treasury.
 - Other. Please briefly describe _____

- D. Given the problems that have been experienced in mortgage lending and mortgage-related securities, and the broader credit market turmoil that has ensued, how would you rank the following proposed regulatory reforms as useful long-term responses to the situation? (Please give each response a unique rank, 1-8, starting with 1--most useful 2--next most useful, etc. Use N/A if not useful. N/A may be used more than once.)
- Introduce more stringent rules governing the structure and terms of mortgage loans.
 - Require better disclosure of mortgage terms to borrowers.
 - Introduce more stringent rules governing the structure and terms of mortgage-backed securities.
 - Require better disclosure of securities terms to investors in mortgage-backed securities.
 - Consolidate the supervision of depository institutions under one regulator with broad powers over lending practices.
 - Introduce prudential supervision of investment companies similar to that imposed on depository institutions.
 - Introduce an independent mortgage regulator to supervise the activities of mortgage lenders and impose rules governing mortgage servicing and securitization.
 - Other. Please describe _____

V. Commodity Prices and Inflation

In the year ending June 2008, oil prices rose 98% to \$134 per barrel and the U.S. average retail price of gasoline climbed to over \$4 for the first time. Meanwhile, year-over-year CPI inflation rose to a 17-year high of 4.9% in June.

- A. Please provide your forecast of energy prices and CPI inflation as of **year-end 2008**:

Crude oil, dollars per barrel: \$ _____
 Retail regular gasoline, dollars per gallon: \$ _____
 CPI-u, all items, percent change from year ago: _____%

- B. Please rank the following factors in terms of importance in driving oil prices higher in dollar terms: (Please give each response a unique rank, 1-6, starting with 1--most important 2--next most important, etc. Use N/A if not useful. N/A may be used more than once.)

- Long-term supply shortages related to scarcity
- Short-term supply shortages related to geopolitics, technical problems, etc.
- Growing demand driven by economic growth in emerging markets
- Decline in the value of the dollar versus the euro (down 16% from year ago)
- High rates of inflation in emerging market economies with currencies pegged to the dollar.
- Other. Please briefly describe _____

- C. How would you assess the role played by “speculators” in oil futures as drivers of the recent increases in global oil markets?

- Speculative purchases have helped drive oil prices significantly above their fundamental value.
- Speculative purchases have helped push oil prices only slightly above their fundamental value.
- Speculative purchases have helped to dampen volatility in oil prices.
- Speculative purchases have had little or no effect on oil prices.
- It is not clear how speculators are affecting prices.

- D. The price of corn reached a record-high \$6.40 in June, up 78% from a year ago. Please rank the following factors in terms of importance in driving grain prices higher in dollar terms: (Please give each response a unique rank, 1-7, starting with 1--most important 2--next most important, etc. Use N/A if not useful. N/A may be used more than once.)
- Long-term supply shortages related to land use, climate, or agricultural policies.
 - Short-term supply shortages related to weather.
 - The diversion of grains to the production of ethanol.
 - Growing demand driven by economic growth in emerging markets.
 - Decline in the value of the dollar versus the euro (down 16% from year ago).
 - High rates of inflation in emerging market economies with currencies pegged to the dollar.
 - Other. Please briefly describe _____

VI. The Dollar and the U.S. Economy

Since 2002 there has been a substantial and orderly depreciation of the dollar against most currencies. What are the causes and consequences of that depreciation, and what additional issues face policymakers going forward?

- A. Please give your forecast for the dollar exchange rate for **year-end 2008**.

	Current (July 23, 2008)	Forecast (December 31, 2008)
Euro:	\$1.57	
Yen:	107.68 yen/\$	
Renminbi (yuan):	6.83 yuan/\$	
Canadian Dollar:	1.02 CN\$/\$	

- B. Federal Reserve Chairman broke the normal Fed silence on the dollar, which some interpret as indicating a Fed concern that the dollar's value is not optimal for US economic performance.

1) Do you believe the current value of the dollar is: (*Mark only one.*)

- Too depreciated for optimal short run economic performance
- Too appreciated for optimal short run economic performance
- Properly valued to maximize short run economic performance

2) Do you believe the current value of the dollar is: (*Mark only one.*)

- Too depreciated for optimal long run economic performance
- Too appreciated for optimal long run economic performance
- Properly valued to maximize long run economic performance

3) With regard to bilateral exchange rates, what is your view on the following currencies? Please check the box that applies.

	Dollar needs to appreciate against the...	Dollar is at an equilibrium value against the...	Dollar needs to depreciate against the...
Euro			
Yen			
Chinese Renminbi (yuan)			
Mexican Peso			
Canadian Dollar			
Your choice of currency here _____			

- C. Some argue in favor of the current valuation of the dollar because it is boosting export growth, which is significant contributor to GDP growth. Others argue that the longer-term costs of the dollar's current valuation is imported inflation. Do you believe: (*Mark only one.*)

- This is an appropriate tradeoff, and policymaker should not intervene
- This is not an appropriate tradeoff, and policymakers should intervene
- The proposition that this is a tradeoff in incorrect
- Policymakers can't directly affect the dollar's valuation

D. If the dollar stabilizes, what do you think will happen with the trade and current account deficits?

(Mark only one.)

Will continue to narrow toward zero imbalance; there is sufficient depreciation still to work through

Will continue to narrow toward zero imbalance; there is still sufficient growth abroad

Will pretty much stop narrowing; the dollar has to fall further to achieve external balance

Will pretty much stop narrowing; there has been no change in underlying structural issues such as household spending and imported oil

VII.Future Topics

What special questions or topics would you like to see covered on future policy surveys?

To help us keep track of your participation, please provide the following information. Individual responses will be kept confidential.

Name _____

Company _____

Thank you!

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