August 2010 NABE Policy Survey Results

Monetary Policy/Financial Regulation

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

19.8% Too stimulative 21.7% Too restrictive 58.5% About right

B. Over the next 12 months, would you prefer monetary policy to be*: (*Please mark only one.*)

33.0% More stimulative 35.8% More restrictive 31.2% Unchanged

C. Over the next 12 months, do you expect short-term interest rates to increase or remain about where they are today?* (*Please mark only one.*)

36.6% Increase

By how many basis points?

7.1% Increase, not sure about number of basis points
35.7% Increase of 25 basis points or less
38.1% 26–50
4.8% 51–75
11.9% 76–100
2.4% More than 100 basis points

63.4% No change; remain about where they are today

**Special Question*: Do you support the Federal Reserve's August 10 decision to reinvest proceeds from maturing mortgage securities and bonds into Treasuries?

77% Yes 23% No

D. Will the Fed significantly alter its pledge to keep interest rates exceptionally low for an extended period by the end of this year?

22.8% Yes
77.2% No

E. Will the Fed start selling agency mortgage-backed securities before the end of 2011?

49.2% Yes
50.8% No

F. Of the following, which do you think is the biggest risk facing the U.S. economy over the next three years? (*Please mark only one.)*

14.6% Inflation
15.8% Deflation
24.2% Neither inflation nor deflation
45.4% Deflation in the short term but inflation later on

G. What do you think will be the most likely scenario regarding the timing of the Fed tightening?

49.3% The Fed will start tightening too late
14.3% The Fed will start tightening too soon
36.3% The Fed will start tightening at the right time

H. In your opinion, the Financial Regulation Bill passed by Congress (check one)

3.1% Significantly reduces the risk of another global financial crisis
52.0% Modestly reduces the risk of another global financial crisis
36.7% Will do nothing to prevent another global financial crisis
8.3% Will increase the risk of having another global financial crisis

Fiscal Policy

A. Do you consider current fiscal policy to be: (*Please mark only one*.)
37.3% Too stimulative 24.1% Too restrictive 38.6% About right

B. Over the next two years, would you prefer fiscal policy to be: *(Please mark only one.)*
25.8% More stimulative 60.1% More restrictive 14.2% Unchanged

C. Over the next two years, do you expect fiscal policy to be: *(Please mark only one.)*
22.6% More stimulative 47.7% More restrictive 29.8% Unchanged

D. Is another fiscal stimulus package necessary to arrest the U.S. economic slowdown and return to growth?

24.6% Yes
75.4% No

E. Should the individual income tax cuts be allowed to expire at the end of the year?

13.8% Yes.
53.6% No.
32.6% Yes, but just on those making more than $200,000 ($250,000 married)

F. Should the capital gains tax cuts be allowed to expire at the end of the year?

16.5% Yes.
61.6% No.
21.9% Yes, but just partially or completely on those making more than $200,000 ($250,000 married)

G. Should the dividend income tax cuts be allowed to expire at the end of the year?

18.3% Yes.
60.0% No.
21.7% Yes, but just partially or completely on those making more than $200,000 ($250,000 married)

H. Should the estate tax be reinstated again after 2010?

17.8% Yes
33.1% No
49.2% Yes, but with a higher exemption level than the $1 million and with a lower tax rate than the 55% top tax now scheduled to occur.

I. Which of the following priorities should take precedence at the federal level at this point in time? (check one)

71.4% Promoting economic growth
28.6% Reducing the federal deficit

J. Which of these steps would have the greatest impact in terms of reducing the deficit (check one).

14.9%	Cut spending across the board.
10.0%	Cut spending on certain programs
4.1%	Raise taxes on the wealthy
0.4%	Raise taxes on corporations
19.5%	A combination of tax increase and spending cuts
41.9%	Implement a comprehensive tax and/or entitlements reform
9.1%	Other (please specify)

K. Major tax or entitlement reform has been suggested as part of addressing the deficit. Please rank the effectiveness in deficit reduction of the following with 1 being most effective.

See page Q2K in Appendix

L. Do you think the bipartisan National Commission on Fiscal Responsibility and Reform will produce a credible plan to reduce the long-run growth in federal debt that can win congressional endorsement?

19.1%	Yes.
80.9%	No.

M. Do you think Congress should have renewed the extension of unemployment benefits to up to 99 weeks?

63.7%	Yes
36.3%	No

N. Should the government do more to encourage increased employment?

74.9%	Yes
25.1%	No

O. What is the best way for the government to encourage increased employment? (Check one)

6.4%	There is no effective way to encourage increased employment
7.3%	Give broad tax cuts for individuals to stimulate demand
22.6%	Give meaningful tax incentives for companies that increase hiring
6.8%	A payroll tax holiday
41.0%	Give clarity on future regulation and tax policy
15.8%	Other

International Finance/Sovereign Debt Questions

Global financial markets have seen increasing volatility again over the past six months as default fears have shifted from financial institutions to sovereign governments, with Greece being the most prominent example. Several other countries, including Spain, Portugal, Ireland, and Italy have also faced increasing spreads on their debt.

A) What will be the **most likely outcome** over the next 12 months with respect to these countries? (*Choose one of the following*)

1. 46.6% One or more will be forced to restructure its debt

2. 45.0% One or more will call on funding from the IMF and other euro members, but will not be forced to restructure debt

3. 8.4% No European country will be forced to either restructure its debt or borrow from international financial institutions

B) What will be the **most likely outcome** over the next 12 months with respect to the Eurozone?

1. 80.5% The Eurozone will remain intact

2. 8.9% One or more countries will be forced to leave the monetary union

3. 9.7% One or more countries will voluntarily leave the monetary union

4. 0.8% The euro will cease functioning as a common currency

C) Have other Eurozone countries played an appropriate role in providing funding to Greece through this crisis?

63.1% Yes 14.4% Too much 22.6% Too little

D) Has the ECB played an appropriate role in providing funding to Greece through this crisis?

68.9% Yes 13.2% Too much 17.9% Too little

E) Has the IMF played an appropriate role in providing funding to Greece through this crisis?

71.9% Yes 16.2% Too much 11.9% Too little

In the wake of these sovereign debt fears, several European countries have adopted austerity budgets. For example, the UK budget contemplates double-digit declines in government spending over the near term. The recent statement by the G-20 also highlighted the importance of controlling budget deficits.

F) Will such austerity programs be successful in reducing budget deficits?

80.6% Yes 19.4% No

G) Will they be successful in calming sovereign debt fears?

68.5% Yes 31.5% No

H) Will they cause a double-dip recession in these countries?

39.2% Yes 60.8% No

I) Will they push the global economy back into recession?

<u>11.0%</u> Yes <u>89.0%</u> No

The Chinese government recently announced that it would allow the yuan to appreciate against the dollar.

J) Will the appreciation of the yuan relative to the dollar result in a reduction in the bilateral trade balance with China?

<u>52.8%</u> Yes <u>47.2%</u> No

K) Will such an appreciation benefit the US economically?

<u>71.4%</u> Yes <u>28.6%</u> No

L) Will an appreciation of the yuan benefit China economically?

<u>67.0%</u> Yes <u>33.0%</u> No

State & Local Government Fiscal Challenges

State and local government tax revenues have fallen significantly during this economic recession, aggravating longer-term structural issues. According to the National Governors Association, 40 states made mid-year cuts totaling $22 billion to their FY 2010 budgets, which followed $31 billion in midyear cuts in FY 2009. At the same time, 29 states adopted tax and fee increases in FY 2010 amounting to $24 billion. Given the state and local budget shortfalls and weak employment growth, the fiscal situation is not expected to improve materially in FY 2011 or FY 2012. More budget cuts and tax increases are expected, especially in light of the fact that federal government stimulus money – which helped to alleviate even more drastic cuts in FY 2010 – will be exhausted at the end of FY 2011.

A) Do you think the federal stimulus funds allocated to states were appropriate to mitigate economic impacts or only delayed necessary budget adjustments?

61.2% Appropriate 38.8% Inappropriate

B) Would you recommend that the federal government provide additional dollars – especially as the American Recovery and Reinvestment Act (ARRA) funds run out – to help alleviate future fiscal challenges?

42.3% Yes 57.7% No

C) Many of the challenges that the states are facing are structural in nature. What are some of the remedies that might work to correct these imbalances in the future?

1. Increasing the size of their "rainy day" funds
   83.8% Yes 16.2% No

2. Changing their constitutional requirements and amendments process to allow more flexibility
   43.7% Yes 56.3% No

3. Attempting to increase revenue through tax changes (e.g., higher corporate or personal income taxes, sales taxes, sin taxes)
   40.4% Yes 59.6% No

4. Reducing the burden related to the benefits of public sector employees and the funding of state pension plans
   86.8% Yes 13.2% No

5. Reducing the number of unfunded mandates from the federal government
   91.2% Yes 8.8% No

6. Implementing new programmatic cuts to the state budget
   89.7% Yes 10.3% No

D) Rank options 1-6 in question 3 above according to expected effectiveness with 1 being most effective and 6 being least effective at bringing budgets closer to balance.

See page Q4D in Appendix

E) What is the most practical and effective way for states to address their pension problems?

1. 46.6% Cut benefits to current and future employees
2. 15.0% Cut benefits to future employees only
3. 2.6% Raise taxes to fund current and future benefits at current levels
4. 3.0% Raise taxes to fund benefits at current levels for current employees but not future employees
5. 29.1% Combination of increased taxes and reduced benefits
6. 3.8% Other (please specify)

F) What growth-oriented policies should states adopt - even in light of their fiscal challenges - that would help lift their economies and help them remain competitive? Please rank.

See page Q4F in appendix

* Answers reflect the responses of 112 NABE members who took part in a second survey on August 25 (see survey note below).

Survey note: Because most of the survey responses were submitted before the Federal Open Market Committee's (FOMC) August meeting, a special survey on key monetary policy issues was conducted on August 25th. This limited subset of monetary policy questions garnered roughly half the response rate of the original survey so interpretation of those results must be considered carefully. The larger sample of the earlier results showed 75 percent of respondents supporting current monetary policy as appropriate versus the 59 percent in the more recent smaller sample. The initial results also showed 53 percent expecting an interest rate hike in the next 12 months versus 37 percent in the latest survey. Although the change in the sample size might explain these shifts, the Fed's decision to reinvest maturing mortgage securities and bonds and recent further evidence of economic slowing were probably at least partly, if not primarily, responsible.