

Economic Policy Survey

NABE Economists Concerned About Rising Deficits, Favor a “Balanced” Approach that Mixes Spending Cuts with Revenue Increases

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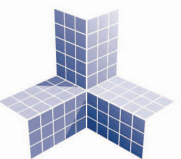
*The NABE August 2011 Economic Policy Survey presents the consensus of a panel of 250 members of the National Association for Business Economics. Conducted semiannually, this survey was taken between July 19 and August 2, 2011. May be reprinted in whole or in part with credit given to NABE. View the 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 Survey and the NABE Industry Survey. **Chad Moutray**, National Association of Manufacturers (Chair); **Robert Fry**, DuPont; **Lynn Reaser**, Point Loma Nazarene University; **Emily Sanchez**, American Chemistry Council; and **Robert Yerex**, Salient Analytics, conducted the analysis for this report. Survey responses were tabulated by Point Loma Nazarene University.*

The National Association for Business Economics recently surveyed its members on a number of policy issues. Please note that these responses were given in the two weeks prior to the passage of compromise legislation to raise the federal debt ceiling. As such, deficit reduction was a central point of conversation, with viewpoints on both sides.

Survey respondents split almost evenly on whether current fiscal policy at the time the survey was conducted was too stimulative, too restrictive, or just about right. At the same time, about half of survey respondents indicated they would **prefer** fiscal policy to be more restrictive over the next two years, while a large majority said it **expects** fiscal policy to be more restrictive.

Most panelists believe that Congress should attempt to reduce the federal budget deficit through a combination of spending cuts and tax increases. More than half (56.1%) favor reducing the deficit only or mostly through spending cuts rather than only or mostly through tax increases (6.8%). The remaining 37.1% favor equal parts spending cuts and tax increases.

Nearly 40 percent of survey respondents believe that containing health care costs in Medicare and Medicaid is likely to be the most successful aspect of a deficit-reduction plan. A comprehensive tax reform plan that raises slightly more revenue than the current tax system also received significant support, cited by a quarter of the survey panel.



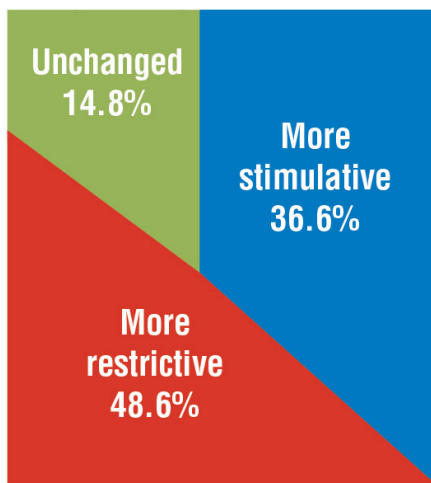
A slight majority of panelists thinks current monetary policy is “about right.” Still, a significant minority believes it is too stimulative. Note that these results were taken before the Federal Reserve Board announced its intentions to keep interest rates low through mid-2013. The panel was evenly split as to whether it would **prefer** monetary policy to remain unchanged or to be more restrictive over the next 12 months. Most panelists expect short-term interest rates to rise less than half a percentage point over the next 12 months.

In response to a series of miscellaneous policy questions, NABE panelists expressed support for free trade agreements with Colombia, Panama, and South Korea, and opposition to the National Labor Relations Board’s recent complaint against Boeing regarding the location of a new factory in South Carolina.

Fiscal Policy and Deficit Reduction:

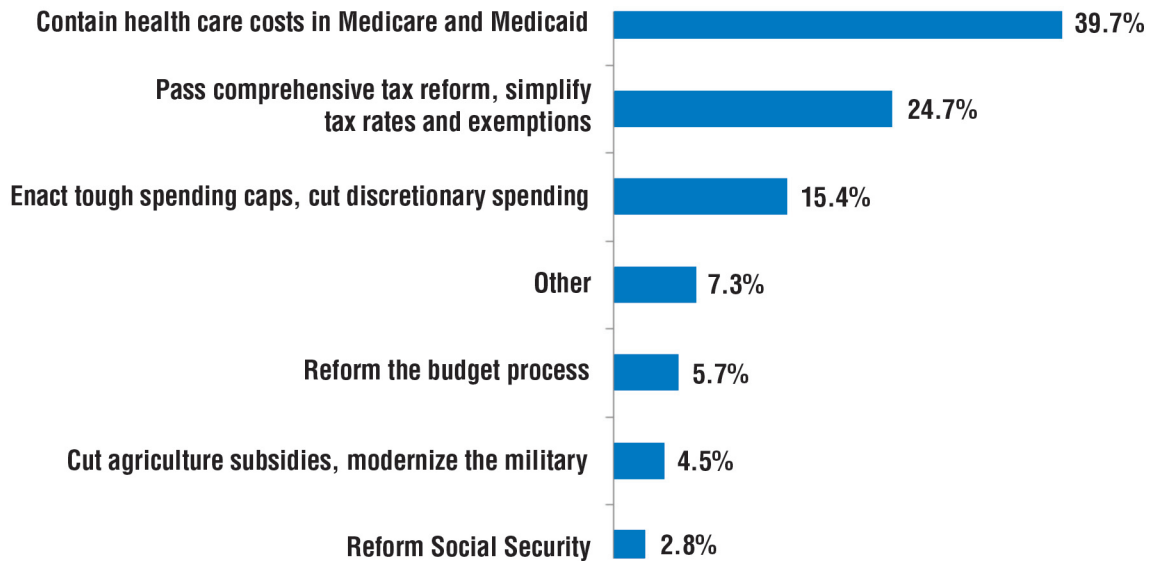
This survey was administered in the two weeks leading up to August 2, the day that compromise legislation to raise the debt ceiling was passed by the U.S. Senate and signed by the president. Given that much of the political and media discussion during that time centered on deficit-reduction measures, it is not surprising that survey responses tended to focus on the need for deficit reduction. Indeed, nearly half of the respondents indicated that they would prefer fiscal policy to be more restrictive over the next two years, while over 70 percent expected that it *will* be. Nonetheless, it is notable that a fair share of NABE members would prefer to see more stimulative government fiscal policy, perhaps reflecting concern about weaknesses in the overall economic environment. Nearly one-third of NABE members taking this survey, for instance, felt that current fiscal policy was too restrictive, with nearly 37 percent preferring more stimulative fiscal policy over the next two years.

Over the next two years, would you prefer fiscal policy to be:



While nearly 32 percent of NABE members felt that current elevated deficit levels were primarily a spending problem, the majority of respondents felt that the deficits were the result of too much spending, not enough tax collections, **and** stalled economic growth. That view translated into a split between those panelists who felt that spending alone could solve the deficit dilemma and those who did not, with most survey respondents suggesting a combination of higher taxes and reduced spending. However, the NABE panel tilted more in the direction of spending reduction. Of those survey respondents who wanted a deficit reduction package with *both* spending cuts and tax increases, 44 percent preferred a package with more spending cuts, while 37 percent felt that deficit reduction could be best achieved with equal parts spending cuts and tax increases. Less than 6 percent of survey participants favored more tax increases rather than spending cuts.

What aspect of a deficit reduction plan would be MOST likely to help in reducing the deficit?



When asked to be more specific about possible deficit-reduction options, nearly four out of ten NABE panelists suggested that containing health care costs in Medicare and Medicaid would be most helpful. In addition, almost one-quarter of the panel recommended pursuing comprehensive tax reform that simplifies tax rates and exemptions, while about 15 percent suggested enacting tough spending caps and cutting discretionary spending. When asked what aspects would be *least* effective in reducing the deficit, 31 percent of survey respondents identified reforming the budget process, while another 27 percent indicated that cutting agriculture subsidies and modernizing the military would be least helpful.

Tax reform measures have been on the policy agenda for many years. While there appears to be some momentum on Capitol Hill for some form of comprehensive tax reform, over two-thirds of NABE members expressed doubts that something would actually be accomplished over the next 12 months. Still, about a quarter of respondents were *slightly* confident that a deal might get done with another 7 percent either confident or very confident about it. If such comprehensive tax reform is pursued, three-quarters of survey participants felt that tax reform should try to increase revenues, 19 percent felt that tax reform should be revenue-neutral and 5 percent felt that it should reduce revenues. Most respondents believe that tax reform should involve a combination of efforts, with simplification/rationalization identified as the top focus followed by subsidy/loophole reduction or removal, and then changing incentives towards saving and investment as opposed to consumption.

Miscellaneous Policy Questions:

The president is attempting to pass free trade agreements with Columbia, Panama, and South Korea. The view of almost 82 percent of NABE Policy Survey panelists is that these agreements should be passed, with 45 percent asserting that such agreements are long overdue and should be passed as soon as possible. Another 37 percent suggested that passage should occur only if trade adjustment assistance for displaced workers is coupled with the agreements. The remainder of the panel expressed the view that international trade is hurting American workers, and they would not support the passage of these or any other free trade agreements.

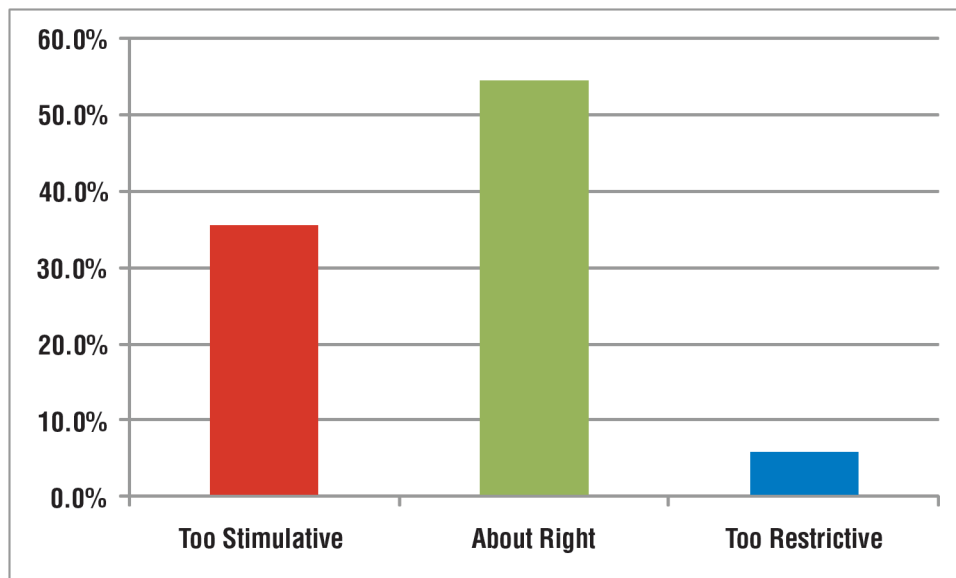
Regulatory activity has gained a lot of attention, with many groups suggesting that American businesses are overregulated by the current administration. With that said, 80 percent of survey respondents felt that the current regulatory environment was "good" for American businesses and the overall economy.

The National Labor Relations Board (NLRB) recently filed a complaint against Boeing's intention to locate a new factory in South Carolina, alleging that the company chose the location as a means of punishing its union workers in Washington State. Some have suggested that the legal action was overreaching on the part of the NLRB, and if allowed to stand could impact other companies' decisions to locate their plants wherever they see fit. A little over half of NABE panelists responding to this question disagreed with the NLRB action, while about one-third stated that they did agree with it.

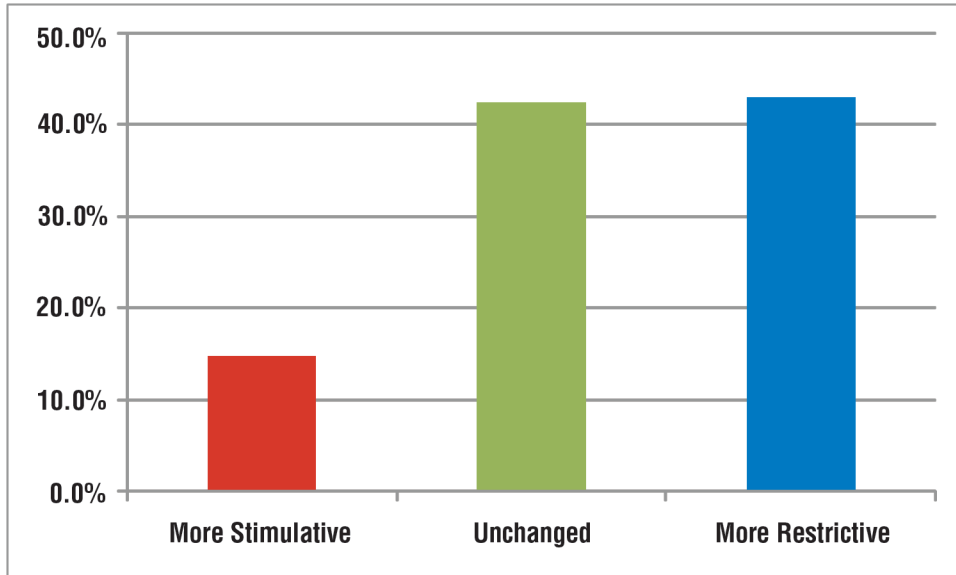
When asked about their top economic concern, many businesses have cited "uncertainty" as a major worry, suggesting that continued anxiety is impacting their decision-making process. In contrast, almost three-quarters of NABE panelists felt that while Americans remain anxious, "economic uncertainty" is simply a proxy for other economic indicators, and once the economy starts to improve, such anxieties will go away. The majority of survey respondents indicated that while uncertainty might be a concern, it is not a major one. About 13 percent of respondents, however, felt that economic uncertainty is a major concern and that it is hampering consumer spending and business investment.

Monetary Policy:

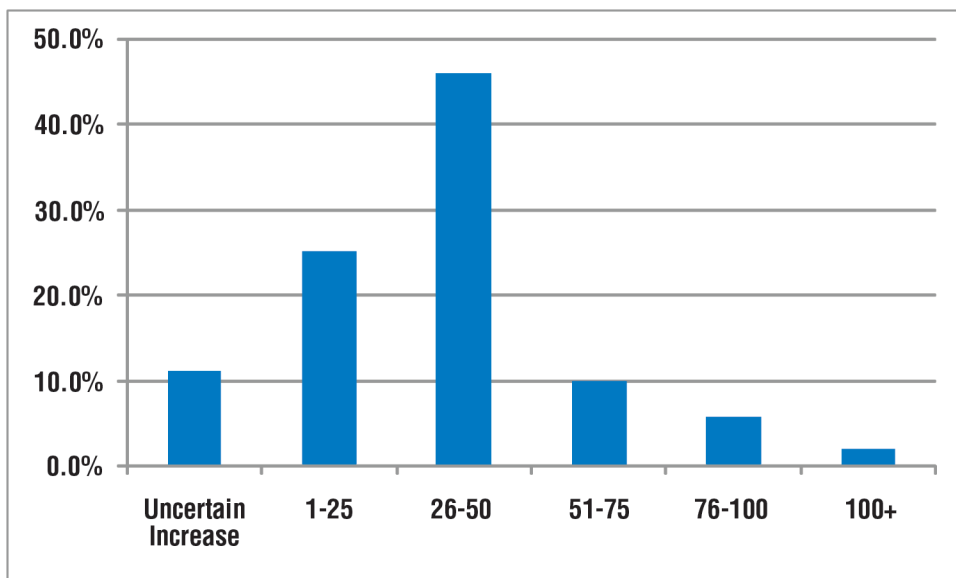
While a majority of survey respondents indicated that the current monetary policy was "About Right," over a third felt it was "Too Stimulative." A much smaller share of just less than 6% felt that current monetary policy was "Too Restrictive." The remaining 4.1% did not know or expressed no opinion.



When it comes to future monetary policy, respondents were nearly equally divided between expectations of it being “Unchanged,” and “More Restrictive” (about 42% each), with another share of nearly 15% expecting future monetary policy to be “More Stimulative.”



There was a wide range of opinion as to where short-term interest rates will go over the next 12 months, including 10% of panelists who expressed uncertainty about the amount of any increase. Still, the “median” expectation was for an increase of 25 basis points or less.



More than twice as many respondents indicated that they expect the Federal Reserve *will not* significantly alter its pledge to keep interest rates exceptionally low for an extended period through the end of this year, as those who did (64.3% vs. 23.0%). The remaining 12.7% were unsure.

Panelists also considered the risks associated with the general level of prices. The most frequently cited scenario (by 35.8%) was that there is neither risk of inflation, or deflation. At the same time, almost a third of respondents expect inflation to be a risk.

SCENARIO	%
Inflation	30.9%
Deflation	8.5%
Neither	35.8%
Deflation in short term followed by inflation later	21.1%
Not Sure	3.7%

Finally, in a vote of confidence for the Federal Reserve's quantitative easing programs, 43% of respondents said such programs had been effective, while 32.5% said they were not, with the remainder unsure.

European Debt Situation:

Many of the NABE economists surveyed believe that debt restructuring will play an important role in resolving the debt problems of not only Greece, but Portugal, Spain, and Italy as well. Creditors could experience losses through a reduction in principal payments, smaller coupons (interest payments), or longer maturities. By and large, the economists who participated in this survey believe such restructuring will ultimately account for about 50% of the Greek solution, 46% of the Portuguese solution, 40% of the Spanish solution, and 38% of the Italian answer. Deficit reduction and loans from the European Union, the European Central Bank (ECB), and the International Monetary Fund (IMF) will be tapped as other channels to deal with the debt problems of Southern Europe.

In terms of who *should* bear the primary burden for addressing Europe's sovereign debt issues, almost half of the NABE economists surveyed (46%) believe that the individual countries should carry the primary cost. The remainder of the cost should be borne by various private creditors, other European countries, the ECB, and the IMF.

Policy Survey Committee

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