NABE Economic Policy Survey®

National Association For Business Economics

FOR FURTHER INFORMATION CONTACT:
Diane Swonk 312-732-3726
Joan Pinkerton 301-652-1926

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NABE SURVEY PANEL SAYS MONETARY POLICY GETS CLOSER TO THE MARK, FISCAL POLICY NEEDS WORK, AND LACK OF STATISTICS FUNDING IS A DISGRACE

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Maureen F. Allyn, Scudder Kemper Investment, Inc., NABE Policy Survey Writer

The NABE Economic Policy Survey presents the consensus of a panel of 185 members of the National Association for Business Economics. The survey was taken in August 2000. May be reprinted in whole or in part with credit given to NABE. View the survey results 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.

COMMENTS— Topping the list of NABE concerns is the proposed funding cutback for the major Federal statistical agencies. Over 80 percent of NABE members agree with Fed Chairman Alan Greenspan, who testified recently before the House Banking Committee that "knowledge is terribly crucial" and that Congress should *increase* rather than hold back funds that could help us better interpret the effect that technology is having on the economy. "My fear is that 'good times breed complacency'", said **Diane Swonk**, NABE president and Chief Economist for BANK ONE CORP. "These data are critical to maintaining the prosperity that we have enjoyed. They shape business policy and provide the very core of policy-making decisions. This is one place our members agree…if the surplus is to be 'spent', money could be spent wisely. The underfunding of the analysis of the Census data is particularly disturbing—it is like tossing in the trash the surveys that we painstakingly filled out earlier in the year." More details in Support for Quality Statistics section below.

Survey Highlights

- **Monetary Policy and the Fed:** Over half (54 percent) of NABE survey participants believed the Fed has already done enough—they would prefer that monetary policy stay on hold for at least the next six months. They also felt, however, the chance of additional rate hikes remained high—61 percent expect that rates will actually go higher.
- **Budget Surplus:** With regard to the Federal budget surplus, the largest concentration (45 percent) of NABE panelists favored some combination of debt-reduction and a shoring up of the social security trust fund. This is off only slightly from the 49 percent recorded last February, and no doubt reflects a modestly higher level of comfort with the projections for the budget surpluses. Tax cuts received a slightly more favorable rating this time around (26 percent in August versus 21 percent in February), but remained overwhelmed by concerns for paying down the debt.
- **Discretionary Spending:** Almost a third of NABE panelists expressed concern that politicians are going overboard with their additions to discretionary spending. ***The only place spending seems overwhelmingly justified to our members is in funding for the statistical agencies, which have been under-funded for eight consecutive years.***
- **Threats to the Expansion:** In terms of threats to the expansion, concerns of a labor shortage and poor education registered high with 27 percent of respondents reporting those as a problem. Fears of a stock market bubble remained about the same as in the last survey, with 22 percent of the NABE panel citing this as a significant problem.
- **Current Account Deficit:** The NABE survey also queried the panel about the size of the current account deficit, which only mildly concerned the NABE panel. For the moment, most panelists seem to feel that the strong points of the U.S. economy—high productivity growth and a technological advantage—justify the country's higher reliance on foreign capital.
- **Government-Sponsored Enterprises:** Concerns over Government-Sponsored Enterprises, especially in housing, ranked much higher on the list of worries, with some 60 percent of NABE panelists worried that the subsidies were a risk. Distortions to credit markets were noted as the greatest threat that the subsidies posed.

- **Candidates' Economic Proposals:** Finally, the NABE panel was queried on its response to economic proposals on the current political agenda. Social security reform should be at the top of the agenda; repeal of the marriage penalty was a close second; and, while politically popular, the reimbursing of prescription drugs for seniors scored low with the NABE panel.

Support for Quality Statistics

NABE is not a lobbying organization—with one exception. We will do everything in our power to make sure the nation's statistical infrastructure does not deteriorate. Since this stance has been repeatedly affirmed by our membership, it is not surprising that our members were concerned when they learned that the House appropriation bill for FY 2001 provided no increase for either Census or the Bureau of Economic Analysis. At the proposed level of funding, several statistical programs would get the axe. Furthermore, Congress provided adequate funds to conduct a successful decennial census, but it appears to have overlooked the next step of incorporating these data into other statistical programs. The President had requested sufficient funds to maintain current programs but not enough to proceed on new initiatives, such as to better our measurement of the "new economy." When we asked our NABE panel if they felt Congress should grant the funding level the President requested, two thirds (66.5 percent) agreed Congress should do at least that much. An overwhelming 83 percent wanted Congress to go further than the President had requested and *increase* the funding for our major statistical agencies so that they could step up efforts to track our changing economy. Making good fiscal and monetary policy without good statistics is playing with fire. On the other hand, 70 percent of the NABE panel supported the consolidation of agencies to make the most of the budget dollar.

Questions on Funding Federal Statistical Agencies
(percent reporting)

	Agree	Disagree	No Opinion
▪ Congress should grant these agencies funding as the President requests.	67	25	8
▪ Congress should increase funding for these agencies to step up efforts to track our changing economy.	83	10	7
▪ Congress should require these agencies to consolidate and coordinate their statistical programs to make the most of every budget dollar.	70	16	14

Monetary Policy and the Fed

The NABE panel has become much more relaxed about the appropriateness of current monetary policy. Over three-quarters (76 percent) felt that monetary policy was "about right," up a sharp 14 percentage points compared to February. The biggest change was in the number who felt policy was too stimulative. It dropped a very large 20 percentage points from 32 percent last February to just 12 percent today. Clearly the Fed's tightening actions since February have calmed the worries of those who thought the Central Bank was getting "behind the curve." While only 9 percent feel policy is too restrictive, that's the highest in three years.

Current* Monetary Policy Is:
(percent reporting)

Date	Too Restrictive	About Right	Too Stimulative
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	13
August 1997	6	85	7
May 1997	12	74	14
February 1997	7	83	10
November 1996	14	77	8
August 1996	16	78	5
May 1996	26	63	8
February 1996	48	51	1
May 1995	14	77	7

Note: Percentages may not add to 100 across columns due to rounding. *Surveys prior to Feb 2000 phrased the question, "Over the past six months, monetary policy was. . ."

Even though so few of the NABE panelists felt current policy was too restrictive, their answers suggest that they have concerns that the Fed could tighten beyond what they feel is necessary in the future. While only 35 percent would *prefer* that policy become more restrictive in the next six months, 53 percent expect that it *will* become more restrictive. Still, this is well down from our prior survey, when expectations were virtually unanimous that the Fed would be tightening policy further. Fewer than 5 percent of our panelists expect policy to become more stimulative in the next six months.

Over the Next Six Months…
(percent reporting)

	Prefer Monetary Policy To Be…		**Expect Monetary Policy To Be…**	
Survey date:	Feb 00	Aug 00	Feb 00	Aug 00
More Restrictive	61	35	87	53
Unchanged	31	54	9	41
More Stimulative	5	11	2	4

Numbers may not add to 100 due to omitted and blank responses not reported.

Interest Rate Expectations

Even though just over 60 percent of the NABE panelists expected short-term interest rates to go up, only 4 percent thought the rise would be greater than 50 basis points. Hardly anyone (7 percent) expected rates to fall, while 31 percent thought rates will remain the same.

Sharing the Fed's Concerns

In several of his recent speeches, Fed Chairman Greenspan has identified (1) a shrinking pool of available labor and (2) reliance on foreign savings as two of the major imbalances in the economy. We asked the NABE panelists if they felt either of these was a threat to the expansion. Like Greenspan, they are most concerned about the tight labor market. Only 13 percent felt the shrinking labor pool was no threat, while 21 percent deemed it a major threat. Two-thirds rated it somewhat of a threat. Forty-three percent suggested more immigration as one way to expand the labor force. Impressively, almost 10 percent volunteered education and training as a solution—our blushes, we had not offered this as a pre-printed option. Since one volunteered response is worth a multiple of check marks, we can conclude that education and training is high on our panelists' priority list for alleviating the economy's most pressing bottleneck.

Respondents were somewhat less concerned about the current account deficit. Over a third (34 percent) felt it was not a threat at all. Only 14 percent rated it a major threat to the expansion, while just half thought it was somewhat of a threat. Nor did our panelists have a consensus remedy to cure this imbalance.

On the Fed Concerns. . .
(percent reporting)

- Shrinking pool of workers is

A major threat to the expansion	20
Somewhat of a threat	66
Not a threat	13
Don't know or no opinion	1

If you believe it is a major or somewhat of a threat, what is the appropriate policy response?

More immigration	43
Higher interest rates	26
Other	23
Don't know or no opinion	8

- Reliance on foreign savings (current account deficit) is?

A major threat to the expansion	14
Somewhat of a threat	50
Not a threat	34
Don't know or no opinion	2

If you believe it is a major or somewhat of a threat, what is the appropriate policy response?

Higher interest rates	28
Urge other countries to expand their growth	11
Other—specify	30
Don't know or no opinion	31

Problems and Strengths

Confirming how concerned our members are about the labor market, 27 percent picked either “poorly prepared labor” or “labor market shortages” as the most serious problem facing the U.S. economy today.

The stock market still has many of the NABE panelists concerned. Despite a flattening out in equity returns in the past six months, nearly 22 percent of our respondents cited the “danger of a stock market bubble/U.S. financial market volatility” as the greatest threat to the expansion.

On the other side of the ledger, it’s pretty clear that economists think the underpinnings of the “new economy” are for real. Nearly 37 percent picked America’s “technological lead” as the U.S.’s greatest economic strength. A further 23 percent chose “productivity gains,”—which of course have been made possible largely because of the new economy. Third runner up, with 11 percent of the votes was America’s deep capital markets.

Two problems related to government that had economists worried a year and a half ago have receded dramatically from the NABE panelists’ radar screens. Only 9 percent rated “excessive growth in or size of government spending” as the economy’s biggest problem. In March 1999, nearly 20 percent had put it at the top of the list. Similarly, less than 5 percent thought the size of unfunded Social Security and/or Medicaid spending was the chief problem; in March of 1999 17 percent of those polled saw this as key.

Major Economic Problem
(percent reporting)

Poorly prepared labor force because of bad schooling and/or inadequate training programs	15	
Labor market shortages/inability to fill job vacancies	12	
Subtotal on labor markets		27
Danger of stock market “bubble” in U.S. equity markets/U.S. financial market volatility		22
Excessive growth in, or excessive size of, government spending and/or taxation		9
Excessive indebtedness for consumers and businesses		9
U.S. taxation system design is inefficient and burdensome		7
Growing inequality of income and/or wealth; increasing concentration of wealth		6
Size of unfunded Social Security and/or Medicare spending		4
Protectionistic sentiment in the U.S. and danger of rising U.S. barriers to trade		2
Large and growing international merchandise trade deficit and/or current account deficit		7
Other /no response		7

Major Economic Strength
(percent reporting)

Technological lead	37
Productivity gains	23
Deep capital markets	11
Flexible labor force	9
Other	20

Surpluses and What to Do with Them

No doubt one reason it is hard to worry about government spending and unfunded liabilities is how fast those federal budget surpluses keep piling up. At the time of our February 2000 survey, the Congressional Budget Office had estimated that surpluses would average 2.4 percent of GDP over the next 11 years. The most recent estimate included in our August 2000 survey was that they would average **3.4 percent** of GDP during the next 11 years.

Despite the astonishing increase in the official estimates, fewer of the NABE panelists are skeptical that they will come to pass. To be sure, a majority (54 percent) continued to think that CBO is too optimistic, but that is down from 59 percent six months ago. Some 41 percent bought into the estimates, up from 33 percent six months ago.

There’s been only a slight movement in what our panelists think is the appropriate use for the government’s extra money. The biggest single response was to use it to reduce federal debt (45 percent, down only slightly from 49 percent six months ago). The second most popular use would be tax cuts (26 percent, up from 21 percent six months ago). Doing both received 22 percent of the vote, vs. 25 percent six months ago.

What might make the surplus smaller than current estimates? The NABE panelists were most worried about politicians going overboard with new discretionary spending problems—which got 39 percent of the vote. A recession came in second place, with 30 percent. Absolutely no one was concerned about military cost overruns, and only 3 percent thought escalating health care costs would be the culprit.

What Should we do with the Surplus?

(percent reporting)

	August 2000	February 2000
▪ Reduce the federal debt and/or increase the OASDI trust fund.	45	49
▪ Cut personal, payroll, and/or corporate taxes.	26	21
▪ Some of all of the above.	22	25
▪ Increase federal non-defense spending.	3	1
▪ No response	3	3
▪ Increase federal defense spending.	1	1

Economic Rating for Political Proposals

We asked the NABE panelists to provide their judgment on four policy initiatives that the two Presidential candidates have surfaced in their campaigns. We asked them to rate the initiatives as to whether they would be good *economic* as opposed to *political* policy, on a scale of 1 to 5, with 5 being the best and 1 being completely inadvisable.

Of the four, Social Security Reform got the highest score. Two thirds gave it either a 4 or a 5; only 3 percent thought it was completely inadvisable. The mean score was 3.9. However, neither of the two specific Social Security proposals we tested scored as well. Putting 2 percent of the contributions into private accounts had a mean score of just 3.3—54 percent gave it a 4 or a 5, and 16 percent thought it would be completely inadvisable. Investing some of the Trust Fund in the stock market fared even worse. Its mean score was just 2.4, with only 26 percent of our panelists thinking it rated a 4 or 5. Over a third (37 percent) thought this would be completely inadvisable. Our professionals do want Social Security reform, but they seem to want the candidates to go back to the drawing board.

Of the two tax cuts being considered, repealing the marriage penalty was considered better economic policy. Its mean score was 3.9, with two thirds scoring it a 4 or a 5 and only 5 percent believing it was completely inadvisable.

Repealing the estate tax racked up a lower score—3.3. Just under half gave it a 4 or 5, while 17 percent thought it would be completely inadvisable.

The one policy that all politicians seem to like—reimbursing prescription drugs for seniors—scored lowest with our panelists, 2.9. Only 26 percent gave it a high score of 4 or a 5. On the other hand only 13 percent thought it completely inadvisable. The majority (60 percent) clustered in the middle.

What Would be Good Economic Policy?

(percent reporting)

Score:	**5**	**4**	**3**	**2**	**1**	
	The Best	Almost the best	Okay	Inadvisable	Completely inadvisable	Mean score
▪ Social Security Reform:	35	33	19	5	3	3.9
-2% private accounts	22	32	15	12	16	3.3
-Invest Trust Fund in stocks	8	18	15	21	37	2.4
▪ Repeal of marriage penalty	41	26	17	10	5	3.9
▪ Repeal of estate tax	28	22	16	16	17	3.3
▪ Reimburse prescription drugs	11	15	34	27	13	2.9

Numbers may not add to 100 across middle five columns due to omitted and blank responses not reported.

Government-Sponsored Enterprises

The House Banking Committee, some U.S. Treasury officials, and the Federal Reserve have raised questions about the role of ongoing subsidies for Government-Sponsored Enterprises (GSEs), in particular those that participate in the mortgage market. NABE panelists also questioned the role of the government in this market. Nearly 38 percent of our respondents thought the subsidies should be eliminated entirely. A further 28 percent thought the subsidies should be continued, but the enterprises should be restricted from entering into new markets. About 20 percent thought current policy should remain unchanged, while 9 percent were in favor of expanding the role of the enterprises to cover more low-income housing.

Would curtailing the role of the GSEs hurt the housing market? A slight majority (53 percent) thought not. They either believed that the market would adjust or that housing no longer needed a subsidy. Just over 42 percent thought either housing prices would go up or mortgage market liquidity would go down or both if GSEs were reined in.

Are government guarantees a free lunch? Not according to our NABE panel. Some 60 percent thought there were risks to continuing the subsidies to the GSEs. Of those who thought there were risks, about 43 percent thought the biggest risk was distortions to the credit markets. About 19 percent of the respondents concerned about risks thought they provided unfair advantages vs. other lenders and another 16 percent thought GSEs posed a risk to Federal finances, should the guarantee need to be activated

Questions on GSEs
(percent reporting)

- Do you believe that the government should continue to play a role in subsidizing housing through GSEs?

No, they should eliminate the subsidies.	38
Yes, but restrict the agencies' expansion into new markets.	28
Yes, continue just as is.	19
Yes, they should even do more/expand the role of the agencies to cover more lower-income housing.	9
Don't care.	6

- Do you believe the housing market would be significantly hurt, if the role of the GSEs was curtailed?

No, markets could adjust.	33
No, housing no longer needs a subsidy.	4
No, both of the above.	16
Yes, mortgage market liquidity would go down.	15
Yes, the cost of housing would go up.	4
Yes, both of the above.	24
No response.	5

- Do you believe there are any risks to continuing subsidies to GSEs?

Yes	60	No	23	Don't know	17

If yes, the biggest risk is:

Distortions to the credit markets from the subsidy.	43
Unfair advantage vs. other lenders.	19
Risk to Federal finances if the guarantee had to be activated.	16
Systemic risk arising from the fact that GSE debt held in bank investment portfolios is treated on a par with Treasury debt, while banks may not hold more than 10% of their capital in other debt securities.	8
GSEs' low capital base raises risk that they fail.	7
Overbuilding in the residential market.	7

Numbers may not add to 100 due to rounding.

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