National Association for Business Economics
August 2009 | Economic Policy Survey

Economic Policy Survey

NABE Economists Agree with Current Monetary Policy Stance, Express Varied Views on Other Leading Policy Issues

Embargoed until: Monday, August 31, 2009 12:01 AM ET

For further information contact:

Media | **Melissa Golding** | 571-236-2820

Technical | **Chris Varvares** | 314-721-4747

| **Doug Duncan** | 703-986-6253

| **Lynn Reaser** | 619-849-2690

The NABE Economic Policy Survey presents the consensus of a panel of 266 members of the National Association for Business Economics. Conducted semiannually, this survey was taken Aug. 3-18, 2009. 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. ***Douglas Duncan****, Fannie Mae;* ***Richard Brown****, FDIC;* ***Michael Fratantoni****, Mortgage Bankers Association; and* ***Robert Fry****, DuPont, conducted the analysis for this report.*

Economists surveyed earlier this month by the National Association for Business Economics expressed strong agreement with the current posture of monetary policy and viewed the current stance of fiscal policy somewhat more favorably. But, they indicated concerns about the paths both monetary and fiscal policy will take in the future. They were generally supportive of a number of the proposals for financial sector reform. But they voiced concerns about prospects for the federal budget, expressed skepticism about the effectiveness of cap-and-trade legislation for lowering global greenhouse gas emissions, and a majority doubt the ability of current health-care reform proposals to simultaneously lower costs while increasing access and maintaining quality.

"This is almost certainly one of the fastest-moving and most controversial economic policy environments we have experienced in a generation," said NABE President ***Chris Varvares,*** *president of Macroeconomic Advisers, LLC. "That said, NABE members express an impressive degree of confidence in monetary policy and impending financial reforms. The more vexing policy challenges about which there is less agreement are federal health-care, cap-and-trade, and budget policies, which are by no means independent of each other," he added.*

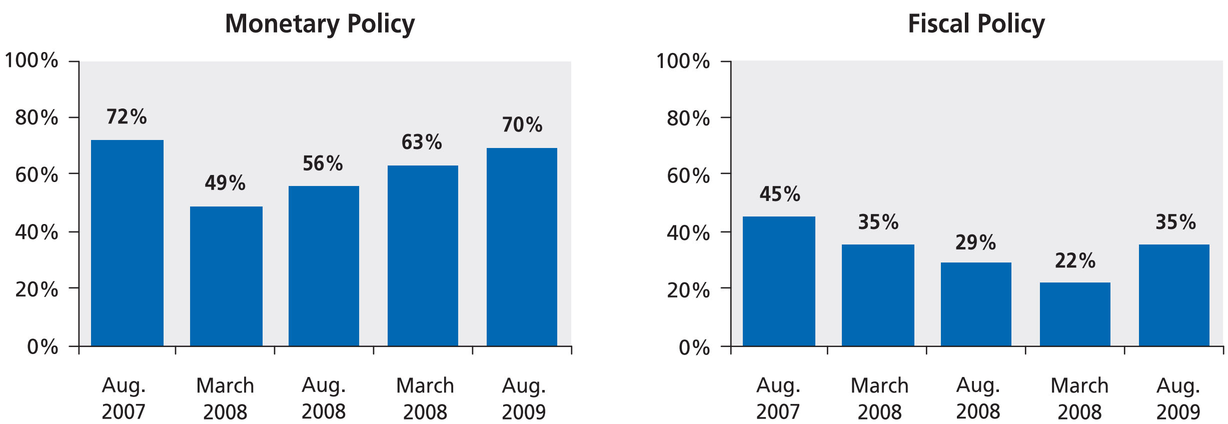
Monetary Policy Right for Now, but Eventual Tightening Needed

Nearly 70 percent of business economists believe that monetary policy is "about right," up from 63 percent in March and 56 percent a year earlier. Another 25 percent view the Federal Reserve's current policy stance as too stimulative, up slightly from March. Respondents are split on whether policy should remain on hold (49 percent) or become more restrictive (45 percent) over the next six months.

When asked their expectation of the Fed's interest rate policy over the next six months, 56 percent expect rates to remain where they are while 44 percent expect an increase. For those expecting a rate increase, some 40 percent expect a rate increase of 25 basis points.

Published by the National Association for Business Economics | 1233 20th St NW, Ste 505, Washington DC 20036
202-463-6223 | 202-463-6239 fax | nabe@nabe.com | www.nabe.com

Percent of NABE Panelists Who Consider Current Policy to be "About Right"



Note: All data are as percent of total responses. Prior period data have been revised to this basis.

Half of the economists do not believe the quantitative easing actions of the Fed will be inflationary over the next couple of years while 41 percent think they will. The top reasons cited for concern were "lagged effects of policies now in effect," "monetization of the debt," and "ineffective exit strategy."

Economists believe the long-term core inflation target of the Fed is two percent but think that the average of core inflation in the 2014-18 time period will be three percent. This may reflect their view that an excessively stimulative fiscal policy and a complicated exit from its quantitative easing policies over the medium term will result in the Fed tolerating a higher level of inflation than it desires. However, only a small percentage feels its policies would be inflationary due to a loss of Fed independence.

Fiscal Tightening Needed, but Will It Be Possible?

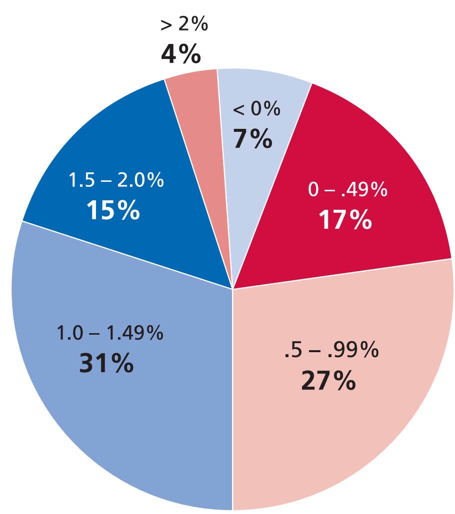
There is a significant shift among economists about the stance of fiscal policy. The share viewing it as "about right" rose to 35 percent, the highest since March of 2008 and up from 22 percent in March 2009. The share of respondents feeling fiscal policy is too restrictive fell to 11 percent from 36 percent last March, while the number viewing it as too stimulative rose to 50 percent from 33 percent in March. Three-quarters responded that they would like to see fiscal policy become more restrictive over the next two years, but only 28 percent expect that it will be. In fact, the largest share, nearly 42 percent, expects fiscal policy to become even more stimulative than it is now.

The business economists believe that without the fiscal stimulus the second quarter negative growth rate would have been one-half percentage point lower (annualized basis). Interestingly, 20 percent feel the stimulus actually *reduced* growth during the quarter.

Slightly over half feel that fiscal policy will add between 0.5 and 1.5 percent to the annualized growth rate of the economy in the second half of 2009, while over a third see it as adding less than half a percent. Asked to look ahead to the impact of fiscal policy on growth from the fourth quarter of 2009 to the fourth quarter of 2010, about 58 percent feel it would add between half and one-and-one-half percentage points to the annualized growth rate of the economy.

The remainder is roughly evenly split between less impact or more impact than the majority foresee. Regardless of those expectations, fully 76 percent do not believe a second stimulus package is needed.

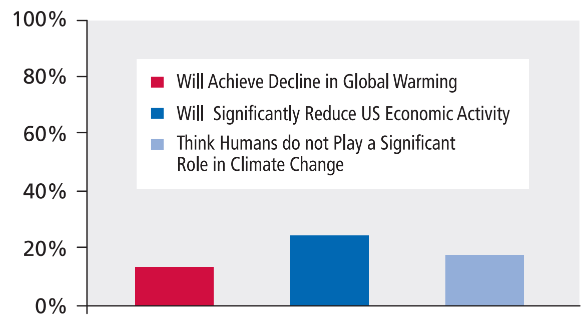
Expected Impact of Fiscal Stimulus on GDP Growth (Q4 over Q4 2010)



Cap and Trade: Unlikely to Cut Global Emissions

The U.S. House of Representatives has passed a bill to establish a cap-and-trade system to limit greenhouse gas emissions in support of Obama administration environmental policy objectives. A clear majority of policy survey respondents (56 percent) think that cap and trade would reduce U.S. greenhouse gas emissions but would increase global emissions by shifting economic activity to countries with less stringent emissions controls. A significant minority (38 percent) say that cap and trade would not even be successful in reducing U.S. emissions. Only 15 percent of respondents believe that cap and trade would help achieve a significant reduction in global greenhouse gas emissions.

Cap & Trade – No Harm, No Foul (% Answering "Yes")



Although the survey panel is very pessimistic about a cap-and-trade system's ability to cut emissions, it is less pessimistic about the impact of such a system on the economy. Only 28 percent of respondents think that a cap-and-trade system would significantly reduce economic activity in the United States and a few respondents wrote in that such a system would actually increase economic activity. A larger percentage (37 percent) say that if revenue from sales of emissions permits or a carbon tax are used to reduce income taxes, the U.S. economy could be made better off. A slight majority of respondents (53 percent) think that a carbon tax would be superior to a cap-and-trade system. Only 20 percent of respondents believe that human activity does not play a significant role in climate change.

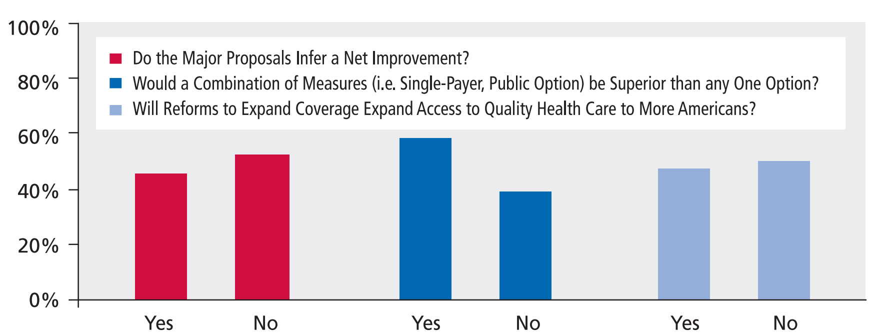
Health-Care Reform: No Consensus, Little Optimism

As with much of the public, NABE members are divided in their evaluation of current proposals for health-care reform and hesitant to wholeheartedly endorse any of them. Fewer than half (46 percent) agree that the major proposals now under consideration would bring a net improvement in the access to, and quality and cost of, health-care services in the United States.

The survey results reflect little in the way of consensus in terms of how best to expand access to health care. Asked to rank their top choices between a "single-payer" system, and "individual mandate" to purchase insurance, an "employee mandate" to purchase insurance and a "public insurance option," all of these responses are outvoted by "other," which is the top choice of 29 percent of respondents. Among those that do name one of the four named proposals as their top choice, the responses are nearly evenly divided between "individual mandate" and "public insurance option," with "single-payer system" trailing just behind. However, roughly 60 percent felt that a combination of these measures would be more effective than any single reform in expanding access. Still, fewer than half of respondents (49 percent) expect that reforms will be effective in expanding access to quality health care to more Americans.

In terms of the trade-off between the quality and cost of health-care services, 47 percent of NABE respondents expect that reforms intended to expand access will serve to "decrease quality and increase cost." And, as in the case of expanding access, there is little consensus as to how best to cut health-care costs. Asked to rank a series of cost-cutting reforms, in terms of potential effectiveness, 25.6% of respondents rank "reforming the tax treatment and deductibles of private insurance plans" first, while the second most popular choice, tort reforms, was ranked first by 20.7% of the panel. Nearly 40 percent of the panelists list

Economists Split over Effectiveness of Health Care Reform



patent limitations on pharmaceutical products as a cost-cutting measure that should *not* be considered, the same proportion as those that would nix regulation of pharmaceutical prices. Almost as many (37 percent) say they would not consider the single-payer concept.

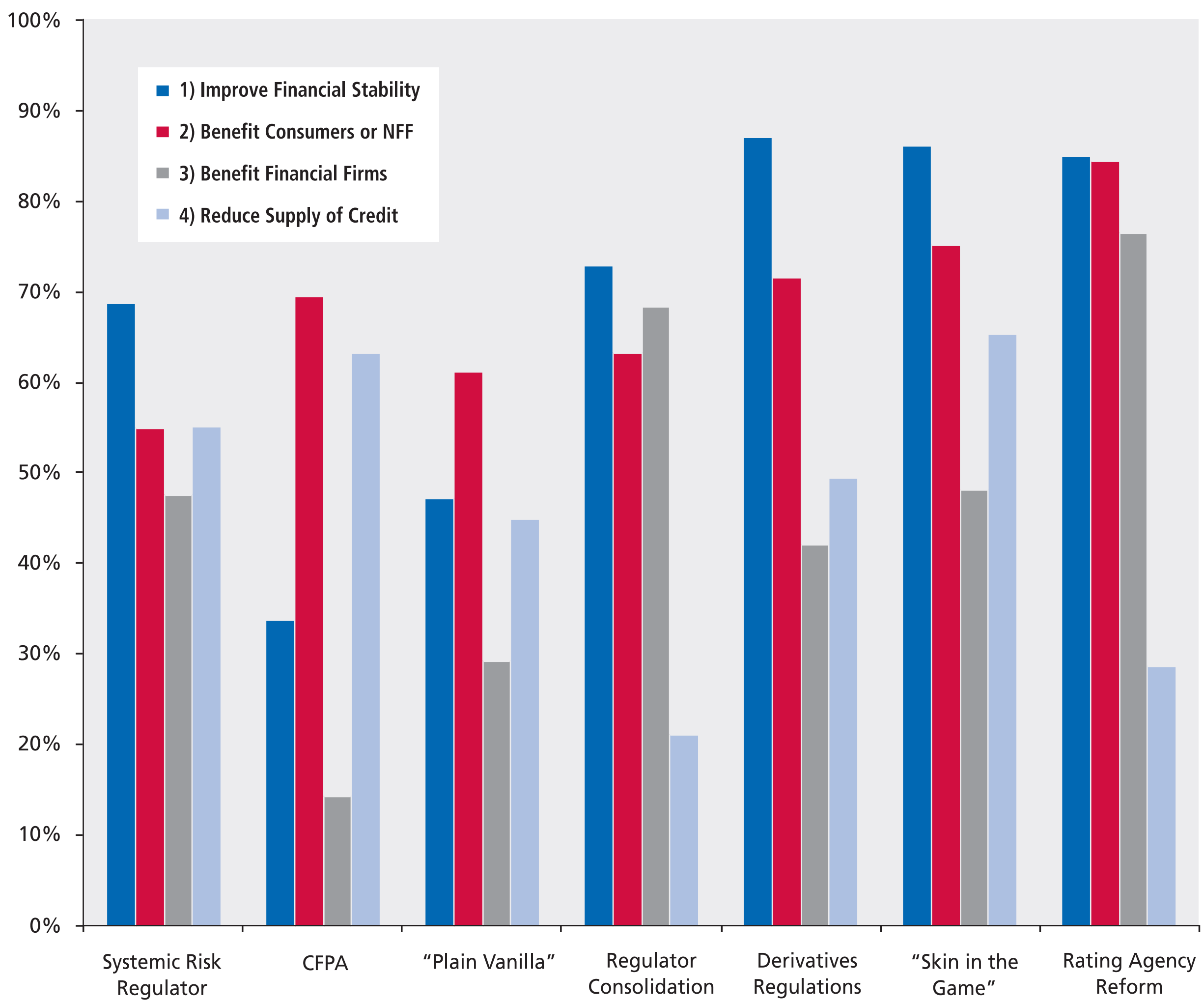
The apparent lack of consensus on health-care reform measures is accompanied by pessimism about their potential to limit long-term growth in health-care costs. While a narrow plurality of respondents (45 percent to 41 percent) say that current proposals are more likely to raise long-term costs than to reduce them, just over a third of all respondents see these proposals resulting in "significantly higher" health-care costs in the long run.

Financial Market Reforms Offer More Stability, but Less Credit

The Administration has proposed a number of financial regulatory reform initiatives. Policy survey participants were asked to determine whether these initiatives would result in improved financial stability, benefit consumers or non-financial firms, benefit financial firms, and result in a reduction in the supply of credit.

A majority of the respondents indicate that many of these financial regulatory reforms are likely to result in improved financial stability. This is particularly true for enhanced regulation of derivatives, greater requirements for "skin in the

Financial Regulatory Reform Questions
(Bars represent the proportion of "yes" responses as a percentage of total responses)



game" for securitized mortgages, and reform of the credit rating agencies. However, creation of a Consumer Financial Protection Agency (CFPA) is not expected by many respondents to lead to improved financial stability.

Although the creation of a CFPA and the imposition of "plain vanilla" product standards are both viewed as beneficial for consumers and non-financial firms, the other regulatory proposals are also viewed as quite beneficial for consumers. Perhaps surprisingly, 84 percent of respondents indicate that rating-agency reform would benefit consumers and non-financial firms, the highest positive response across proposals for this category. (Whether this positive response is intended to apply more to non-financial firms than consumers can only be conjectured.) Across the various reform proposals, respondents tend to see a trade-off between perceived benefits or costs for consumers or non-financial firms on the one hand and benefits or costs for financial firms on the other. For example, while 69 percent of respondents indicate that the creation of a CFPA could benefit consumers, only 14 percent of respondents think that creation of such an agency would benefit financial firms.

For three of the proposals—the creation of a CFPA, "skin in the game" requirements, and creation of a systemic risk regulator—a majority of respondents indicate that a result would be a reduction in the supply of credit to the economy. Some 49 percent indicate that enhanced regulation of derivatives would also curb the supply of credit. As the chart above illustrates, respondents believe that two proposals could have significant benefits across the board with little cost in terms of reducing the supply of credit—the consolidation of banking regulators and rating-agency reform. These survey results suggest that the particular mix of measures ultimately adopted as financial reform could have very different implications for financial stability, credit availability, and consumer well-being.

Published by the National Association for Business Economics | 1233 20th St NW, Ste 505, Washington DC 20036
202-463-6223 | 202-463-6239 fax | nabe@nabe.com | www.nabe.com