Economic Policy Survey

NABE Panel Deems Current Fiscal and Monetary Policies "About Right"; Has Concerns about Health Care, Actions on Trade, Immigration

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The August 2017 NABE Policy Survey summarizes the responses of 184 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered July 18–August 2, 2017. Survey findings 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 Business Conditions Survey. ***Richard DeKaser, CBE*** *(Wells Fargo), Chair;* ***David Altig*** *(Federal Reserve Bank of Atlanta);* ***Manuel Balmaseda, CBE*** *(CEMEX);* ***Ed Kean*** *(Observatory Group);* ***Diane Lim*** *(The Conference Board);* ***Frank Nothaft, CBE*** *(CoreLogic); and* ***Dan Sullivan*** *(Federal Reserve Bank of Chicago) conducted the analysis for this report.*

Summary

"In general, NABE Policy Survey panelists feel that current monetary and fiscal policies are 'about right,'" said **NABE President Stuart Mackintosh, CBE,** executive director, Group of Thirty. "The overall view of the panel is that the likely interest-rate impact of the Federal Reserve's Balance Sheet 'normalization' is fairly benign, and will add about one-half of a percentage point to the 10-year Treasury yield over time.

"But panelists are concerned—although not alarmed—about the stability of the private health care market and the need for reform," Mackintosh continued.

"Regarding executive actions surrounding immigration and foreign trade, survey participants give the administration unfavorable scores," added **NABE Policy Survey Chair Richard DeKaser, CBE**, executive vice president and corporate economist, Wells Fargo. "Survey results also reflect the panel's strong preference for more active policies to mitigate global warming and income inequality," continued DeKaser. "A carbon tax is the expressed preference for addressing the former, and education policies are preferred to address the latter perceived problem."

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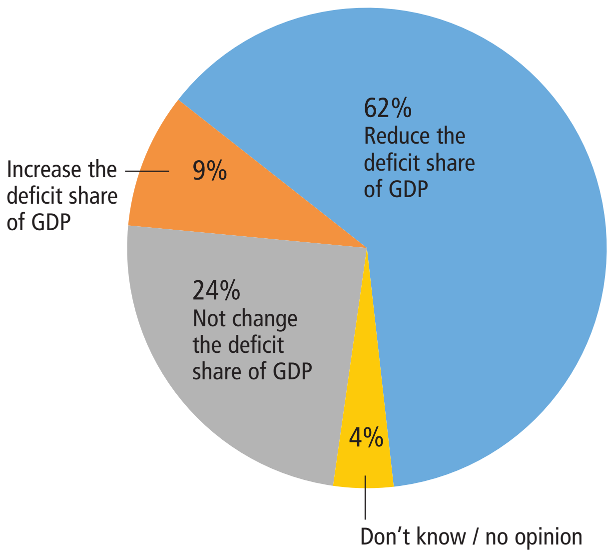
Fiscal Policy

A plurality of NABE survey respondents—46%—characterizes current fiscal policy as "about right." This is little changed from the 44% in the March 2017 Policy Survey. More respondents consider policy to be "too restrictive" (28%) than "too stimulative" (20%), but these results represent a balanced perspective overall.

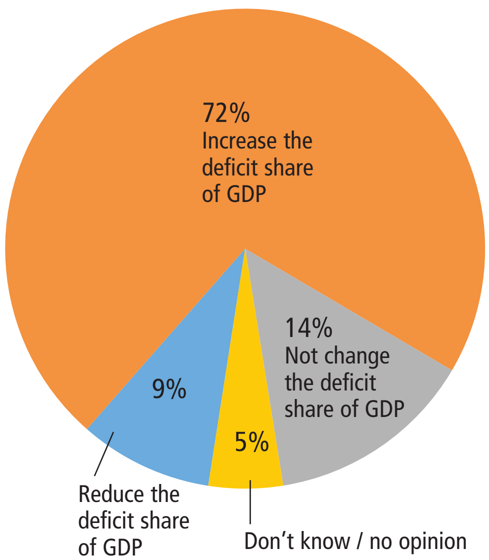
The NABE Policy Survey panel has a strong preference for more conservative fiscal policy in the long run. Specifically, 62% of respondents indicate that fiscal policy should reduce the federal deficit share of GDP when compared with the Congressional Budget Office's (CBO's) current 10-year baseline. Only 9% suggest that fiscal policy should increase the deficit share of GDP. But opinions tilt in the opposite direction regarding expectations: 72% of panelists believe that the most probable tax and spending policies are likely to increase the deficit as a share of GDP relative to the CBO baseline, while 9% expect it to decrease.

Figure 1:

When compared with the CBO's current 10-year baseline, fiscal policy should:



When compared with the CBO's current 10-year baseline, the most probable tax and spending policies are likely to:



Survey respondents express a slight bias in favor of a "destination-based cash flow" system of corporate taxation, as previously proposed by Speaker of the House Paul Ryan (R-WI). Forty-four percent consider such a system would be "somewhat better" or "far better" than the current system in terms of equity and efficiency. Thirty-one percent indicate it would be "somewhat worse" or "far worse." A significant minority of respondents—20%—has no opinion or don't know.

The panel appears quite pessimistic about prospects for "meaningful, revenue-neutral tax reform" in the near term. They assign only a 10% (median) probability of such legislation being enacted this year and a 15% (median) probability of passage in 2018. A majority (53%) of survey respondents believe such reform would add less than one percentage point to real GDP growth over the next 10 years. Another 32% put the impact on the growth rate between one and two percentage points.

Generally, survey respondents suggest a low probability—10% (median)—that the federal debt ceiling will *not* be breached in September or October.

Monetary Policy

A majority of survey panelists expresses support for the Federal Reserve Board's current monetary policy stance. Sixty-one percent of respondents indicate that the current policy stance is "about right," although a significant minority (34%) indicates that policy is "too stimulative." Only 5% feel that current policy was "too restrictive."

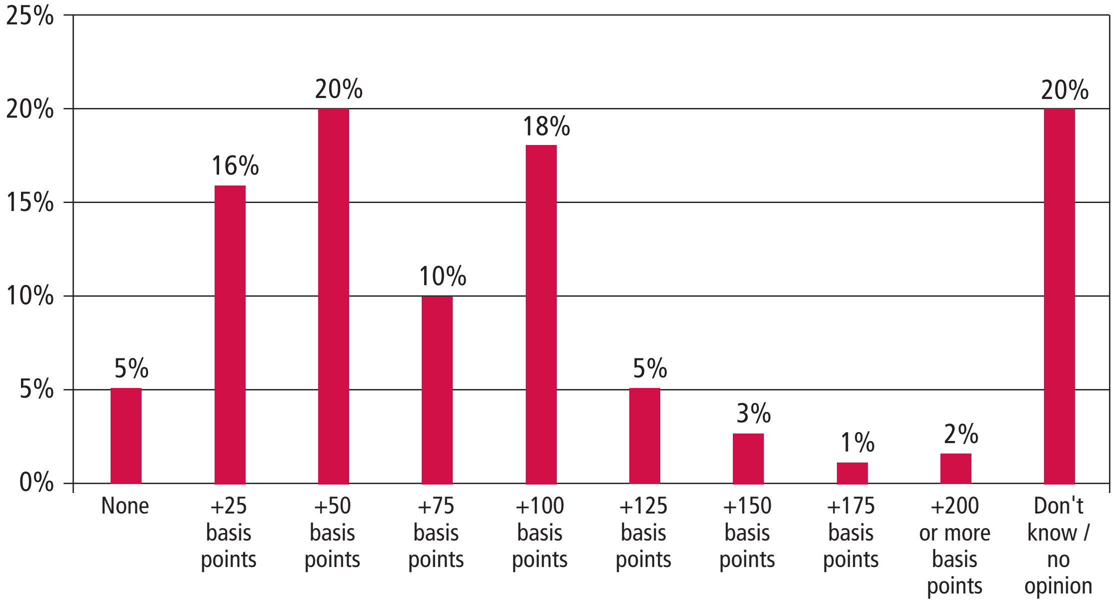
A slight majority of business economists is in agreement with the Federal Reserve's guidance on the federal funds target rate for year-end 2017. Fifty-three percent of respondents expect one additional quarter-point rate hike this year—in line with the Fed's latest (June) *Summary of Economic Projections*. But panelists are somewhat less in agreement with the Fed regarding rate hikes in 2018. A plurality (28%) expects the fed funds target rate to be 2% at year-end 2018; Fed guidance is closer to 2.5%.

Opinions are divided regarding the accuracy of published inflation metrics. A plurality of respondents indicates that the Personal Consumption Expenditures (PCE) deflator measure accurately reflects underlying reality. While 37% of respondents believe that current measures exaggerate inflation somewhat, the majority of that share suggests the discrepancy is one-quarter of a percentage point. A significant minority (26%) either "don't know" or have "no opinion." For those who do believe there is some upward reporting bias, there is no strong opinion as to whether that bias has changed over time.

A solid 60% majority of survey panelists views the Fed's 2% inflation target as appropriate, with about equal shares of respondents favoring a higher or lower target rate. A 44% plurality of business economists also considers the Fed's inflation target a range midpoint, with no bias in either direction.

Survey results reflect a wide range of opinions on the impact of the Federal Reserve's stated plan to "normalize" the size of its balance sheet to a level appreciably below that seen in recent years, but larger than before the financial crisis. Three-quarters of respondents expect such action will result in raising the yield on 10-year Treasury notes, with half of those respondents suggesting the increase would be +50 basis points or less.

Figure 2: The Federal Reserve recently announced plans to "normalize" its balance sheet to "a level appreciably below that seen in recent years but larger than before the financial crisis." If fully executed, what cumulative impact would that have on the 10-year Treasury note yield?



Janet Yellen's four-year term as chair of the Federal Reserve Board is scheduled to expire in February 2018. Seventeen percent of respondents expect her to be nominated to a second term. Nearly half of them suggest Gary Cohn, director of the National Economic Council, will be the likely nominee.

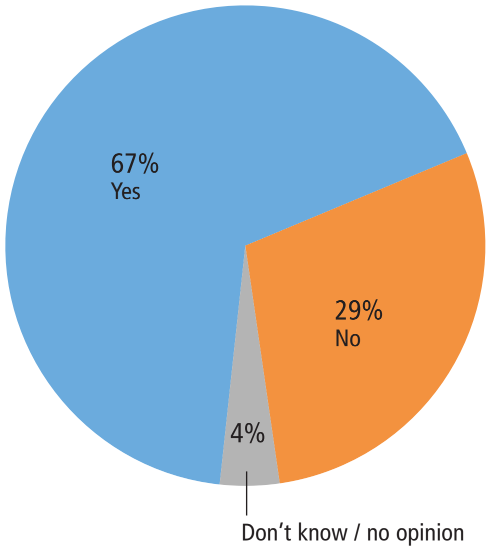
Domestic Economic Policy

Two-thirds (67%) of survey respondents indicate that economic policy should do more to mitigate global warming. Of that share, a majority (54%) would prefer a carbon tax as the policy instrument.

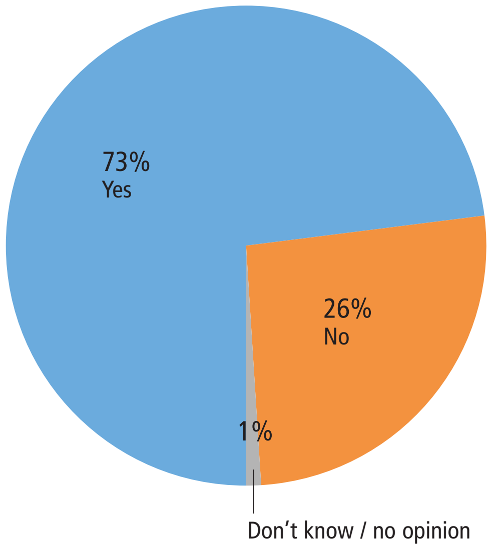
Nearly three-fourths (73%) of respondents believe economic policy should do more to reduce income inequality. Of those, more than half (58%) would prefer it be accomplished via education policies to improve the productivity of lower-skilled workers, while 24% would prefer it be achieved through a more progressive federal income tax system.

Figure 3:

Do you believe economic policy should do more to mitigate global warming?



Do you believe economic policy should do more to mitigate income inequality?



The panel has concerns about health care policy, but is generally not alarmed. Survey respondents were asked to score the seriousness of instability in the private health care market on a 1-to-5 scale, with 1 indicating not a problem, 3 indicating a limited, manageable problem, and 5 indicating it is a fatal problem. The average of survey results is 3.6. The panel was also asked to score the need for health care reform legislation on a 1-to-5 scale (1=not urgent at all; 3=somewhat urgent; 5=very urgent); the average score is 3.7. Still, survey respondents indicate that the chance of "meaningful" health care legislation 2017 is low, with only a 10% median probability of action in 2017. The median probability of action in 2018 is 20%.

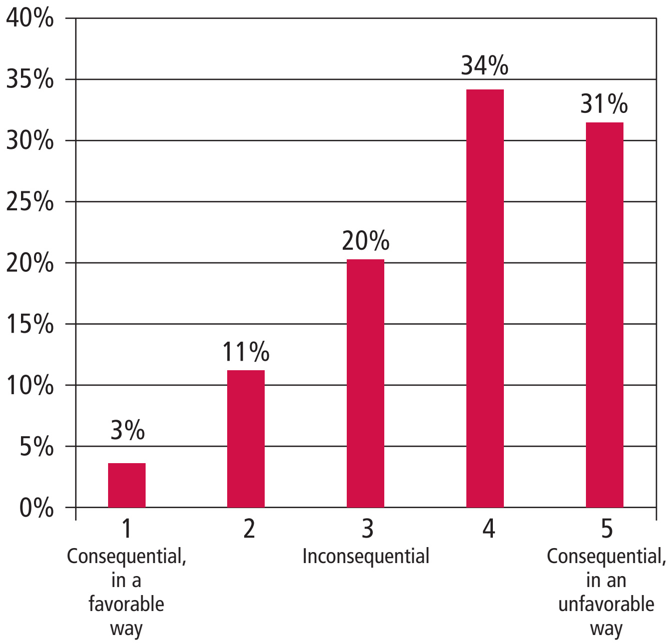
A plurality of respondents (38%) indicates that Fannie Mae and Freddie Mac should be partly privatized with private capital, some federal government assurances, and regulatory oversight. One-quarter (25%) suggests these GSEs should be fully privatized. Only 10% of panelists support the status quo—i.e., Fannie Mae and Freddie Mac run as separate federal government corporations—and 20% indicate these enterprises should be merged into one federally owned corporation.

International

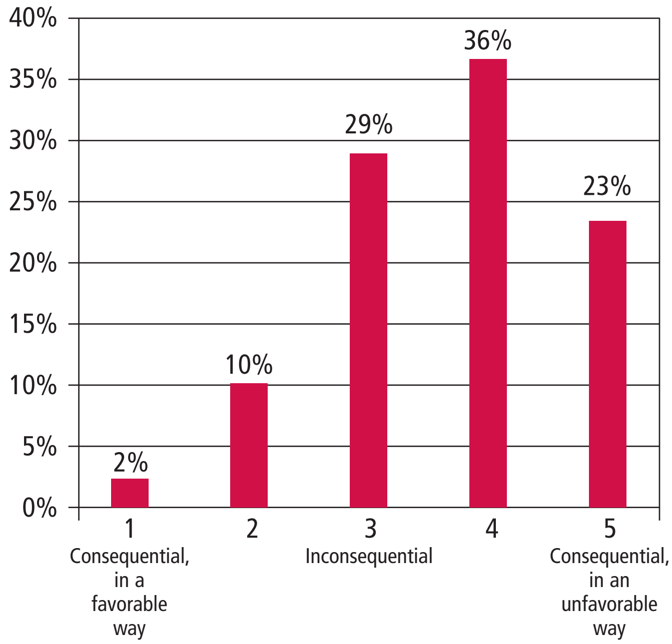
Business economists suggest there are unfavorable consequences from the Trump administration's trade and immigration policies, thus far. Survey participants were asked to score the impact from recent policy decisions by the administration on a 1-to-5 scale, with 1 being consequential, in a favorable way, 3 being inconsequential, and 5 being consequential, in an unfavorable way. The executive actions with respect to immigration scored a 3.8, while those with respect to foreign trade received a score of 3.7. Survey responses reflect a score of 4.1 regarding the decision to disengage from the Trans-Pacific Partnership.

Figure 4:

The Trump administration has undertaken many "executive actions" with respect to immigration. On a 1-to-5 scale, these have been:



The Trump administration has undertaken many "executive actions" with respect to foreign trade. On a 1-to-5 scale, these have been:



Policy Survey Committee

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