

Economic Policy Survey

NABE Business Economists Disagree with Trump on Debt, NAFTA, and Immigration; Are Sympathetic on Obamacare Reforms

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*The March 2017 NABE Policy Survey is the first since the new administration took office, and panelists were asked about policies being proposed by the Trump administration. The survey summarizes the responses of 285 members of the National Association for Business Economics (NABE). Conducted semiannually, this survey was administered January 31–February 15, 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. "However, a large majority of panelists believes the Trump administration's proposed fiscal policies are likely to increase the federal budget deficit as a share of the economy over the next decade," he continued. "Most panelists would prefer to see the deficit share shrink."

"At the same time, survey respondents hold a more positive view about NAFTA and immigration policies than those proposed by the Trump Administration, with a general preference for relaxed immigration policies," added NABE Policy Survey Chair **Richard DeKaser, CBE**, executive vice president and corporate economist, Wells Fargo. "Panelists especially favor expanding the H-1B visa program for high-skill workers. Only 5% favor increased spending to deport unauthorized immigrants."

"Regarding changes to the Affordable Care Act, or 'Obamacare,'" continued DeKaser, "survey participants favor a system that increases consumer choice and control, supported by tax credits."

Fiscal Policy

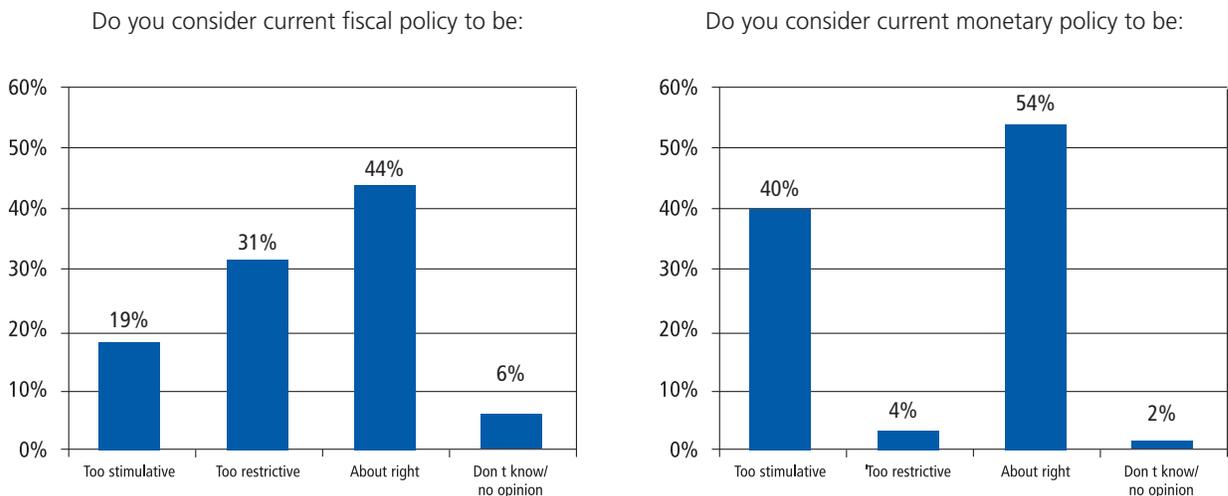
A plurality of NABE survey respondents—44%—characterizes the stance of fiscal policy as “about right,” although more consider it “too restrictive” (31%) than “too stimulative” (19%). These figures are little changed from results in the August 2016 Policy Survey.

The majority (56%) of respondents feels the primary objective of current fiscal policy should be to promote long-run economic growth by increasing incentives for greater capital investment and labor force participation. The second most-favored objective (by 18% of panelists) is to broaden the tax base and close loopholes to level the playing field across economic activities. Smaller shares of panelists favor more activist policies, such as reducing the deficit (cited by 12% of panelists), addressing income inequality (8% of panelists), or stimulating aggregate demand (6% of panelists).

A large majority of the panel (69%) feels that the 10-year federal deficit as a share of gross domestic product (GDP)—relative to the Congressional Budget Office’s (CBO’s) latest forecast—should be reduced. However, an even larger majority (78%) expects the deficit share of GDP to increase under the Trump administration’s budget plans.

The panel was asked what steps should be taken to reduce the current fiscal deficit. Roughly half (51%) of respondents favors cuts to federal entitlements, about a third (31%) favors cuts to defense spending, and a similar share (30%) favors cuts to nondefense discretionary spending. Smaller shares of respondents favor increasing rates on existing taxes (17%) or imposing new taxes (15%). One fifth (20%) of NABE respondents holds the view that no change to the current deficit is appropriate.

Figure 1: Current State of Economic Policy



Monetary Policy

Fifty-four percent of respondents consider the Federal Reserve's current stance on U.S. monetary policy to be "about right." This is a slightly larger majority than the 51% that held the same view in the August 2016 Policy Survey. Accordingly, the shares of respondents who feel that monetary policy is either too stimulative (40%) or too restrictive (4%) have fallen slightly from those in the previous survey.

Thirty-six percent of respondents expect that the Federal Open Market Committee (FOMC) will vote to increase the federal funds target rate at its March 15, 2017, meeting, bringing the top end of the federal funds target range to 1%. A plurality of NABE panelists—33%—suggests the Fed Funds rate will end the year at 1.25% (implying two quarter-point hikes). Still, 28% expect three or four rate hikes by year-end.

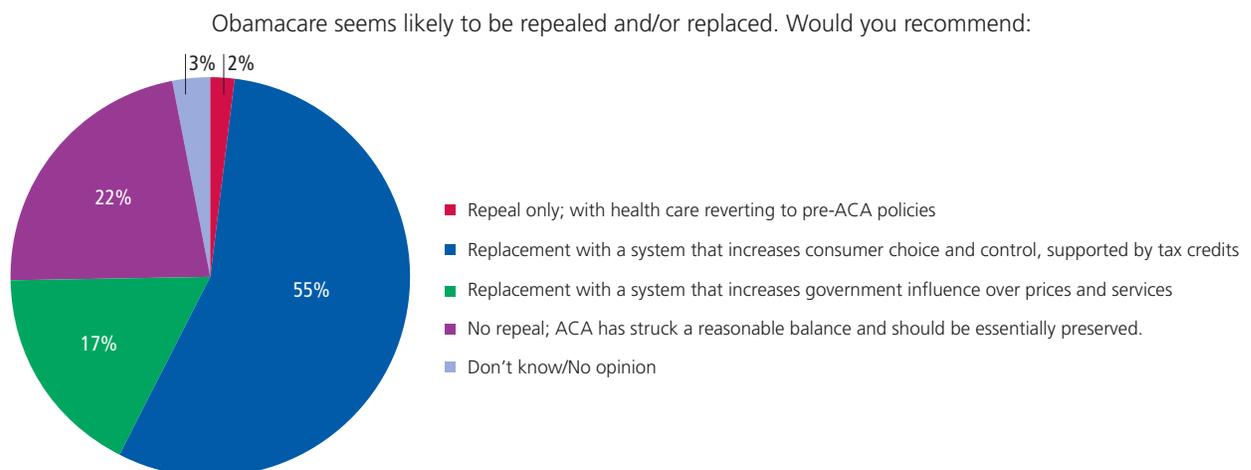
In terms of inflation expectations, 34% of respondents expect the Federal Reserve to meet its inflation target of 2% (as measured by the personal consumption expenditure [PCE] price index, excluding food and energy components) five years from now. A slightly smaller share of the panel—31%—predicts a 2.5% PCE inflation rate. In all, a majority (54%) of the panel expects the PCE inflation rate will exceed 2.0%, compared with just 8% of panelists who expect the rate to be less than 2.0%.

About one-third of the NABE panel expects a reversal in the Fed's quantitative easing stance sometime this year; a similar share (32%) predicts a Federal Reserve balance sheet downsizing in 2018. One-quarter of panelists anticipates such actions will be postponed until 2019 or later.

Health Care Policy

A slight majority of survey respondents (51%) states their general opinion of the Affordable Care Act (the ACA, or "Obamacare") is favorable, whereas 43% have an unfavorable opinion. A larger majority (55%) favors replacement with a system that "increases consumer choice and control, supported by tax credits." Only 17% favor a system that "increases government influence over prices and services," and 22% indicate that the ACA has struck a reasonable balance and should be essentially preserved.

Figure 2: Obamacare Reform



Immigration and Foreign Trade Policy Issues

A substantially larger share of NABE panelists indicates that immigration policies should be relaxed to encourage greater immigration compared to the share that supports tightening immigration policies to lower net immigration. Specifically, 49% of respondents agree that immigration policy should “relax, to increase net immigration,” while 19% hold the view that immigration should “tighten, to decrease net immigration.” Another 27% of respondents indicate that immigration policy “should not change.”

As to specific immigration policy changes, a solid 59% majority of the NABE panel favors as their first priority expanding high-skill visa programs, such as the H-1B program, to increase labor availability. Fifteen percent favor as their first policy choice expanding low-skill visa programs, such as the H-2B and H-2A programs, to increase labor availability. Only 9% support increased spending on border enforcement. An even smaller share of panelists—5%—endorses increased spending to deport unauthorized immigrants.

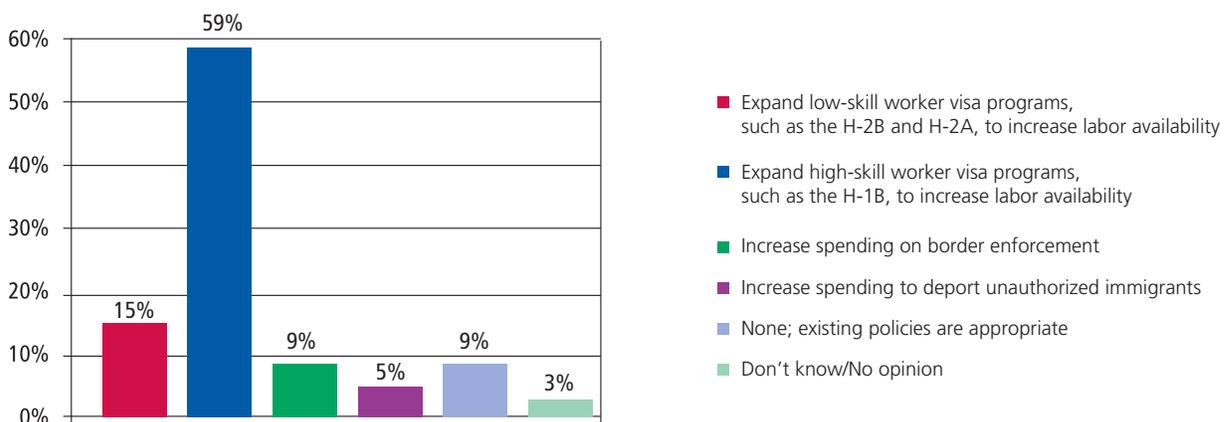
The survey also asked panelists to rank the severity of the illegal immigration problem on a scale of 1-to-10, with “1” being “nonexistent,” and “10” being severe. The responses resulted in a score of 4.7, implying that respondents do not consider illegal immigration to be a serious issue.

Survey respondents clearly support the North American Free Trade Agreement. Using a 1 (unfavorable) to 10 (favorable) scale, responses reflect an average score of 7.5.

NABE panelists were asked when U.S. imports should encounter “barriers to entry.” Almost seven out of ten—69%—indicate that those barriers should occur “occasionally and tactically, when vital industries are threatened by unfair trade practices.” Another 27% indicate there “never” should be barriers to entry of imports to the U.S. Only 5% of respondents agree that imports should encounter barriers “persistently and strategically, to promote particular industries vital to U.S. interests.”

Figure 3: Immigration

Which of the following immigration reform policies would you recommend?



Policy Survey Committee

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David Altig, Federal Reserve Bank of Atlanta

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