FOIA Number: 2018-0275-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Records Management - SUBJECT FILE

Series/Staff Member: Subject Files

Subseries:

OA/ID Number: 21904

Scan ID: 428348

Document Number:

Folder Title:
BE

Stack:	Row:	Section:	Shelf:	Position:
S	83	4	4	1

10.16.00

428348

BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

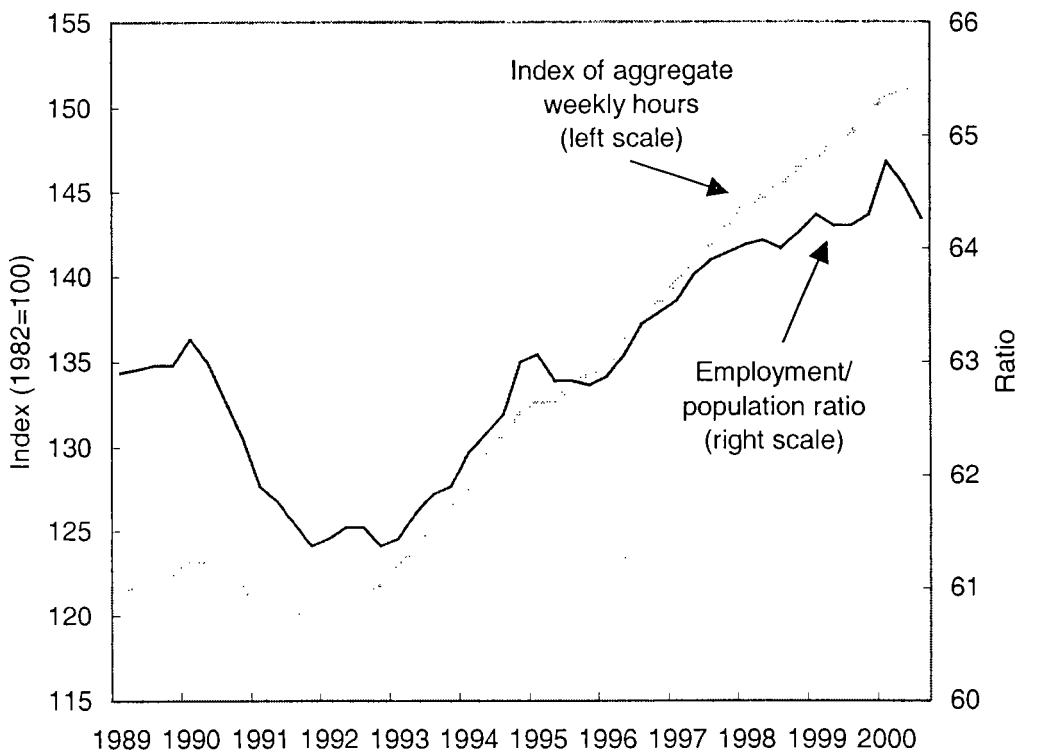
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

Copied Daily Podesta

October 13, 2000

CHART OF THE WEEK

Hours Worked and the Employment/Population Ratio



After growing strongly for much of the expansion, aggregate hours worked slowed substantially this year. Growth in the fraction of the working-age population that is employed has also slowed as the expansion has matured. With labor markets as tight as they are, opportunities for further growth from labor inputs (beyond population growth) are limited.

PHOTOCOPY
WJC HANDWRITING

10.16.00

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

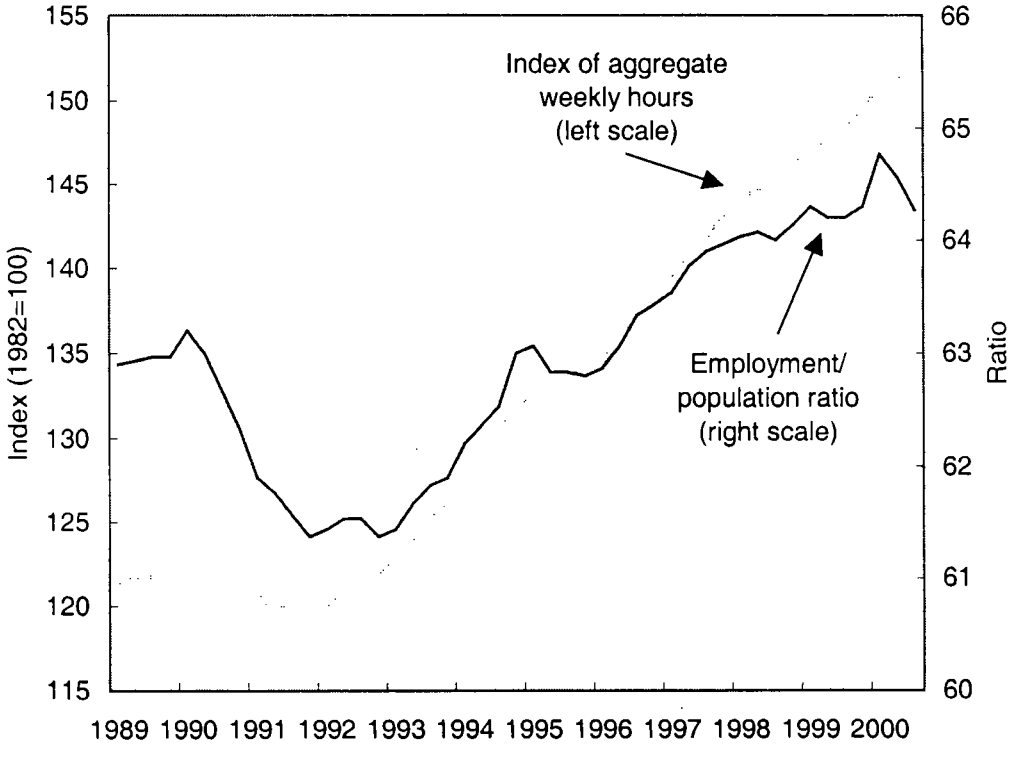
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

October 13, 2000

copied
Daily
Podesta
p.1 : Sperling
Berger
Brady Anderson
p.5: Sperling
Jennings

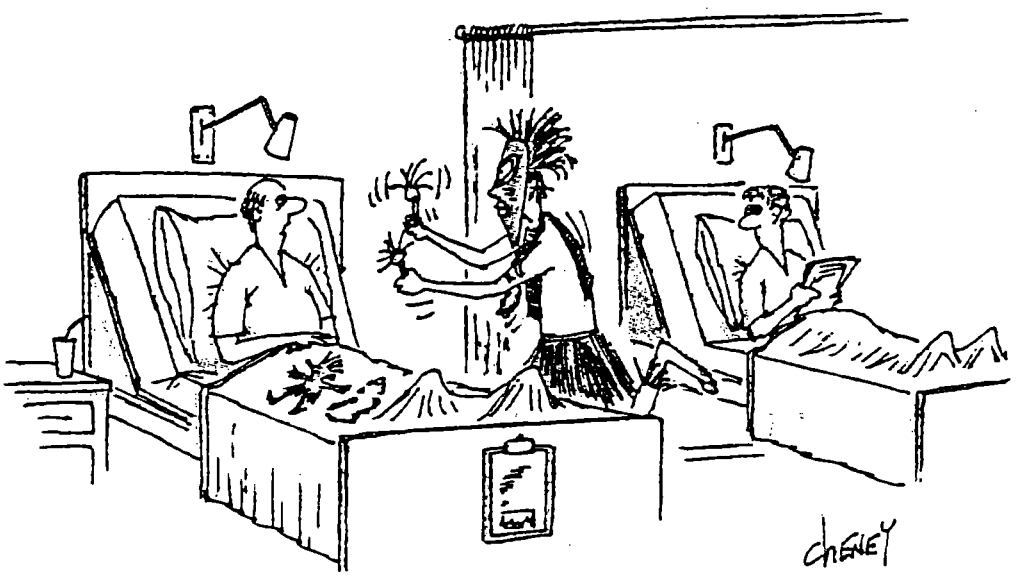
CHART OF THE WEEK

Hours Worked and the Employment/Population Ratio



After growing strongly for much of the expansion, aggregate hours worked slowed substantially this year. Growth in the fraction of the working-age population that is employed has also slowed as the expansion has matured. With labor markets as tight as they are, opportunities for further growth from labor inputs (beyond population growth) are limited.

CONTENTS



"He's all I could get through my HMO."

10.16.00

Copied
Sperling
Berger
Brady Anderson

SPECIAL ANALYSIS

Closing the International Digital Divide

The rapid pace of technological advance threatens to create an international digital divide that leaves some developing countries ever further behind the more advanced economies. Some argue that acquiring advanced technology should be a relatively low priority for countries still struggling to meet basic needs such as clean water, adequate health care, and lower poverty rates. Recent studies show, however, that information technology can not only address some of these basic needs but may also generate better economic development returns to a country than more traditional infrastructure investments.

The importance of IT. A wide range of examples attests to the potential of information technology (IT) to raise local incomes and improve the quality of education, health care, and public services. For instance, a rural Peruvian village quintupled its monthly income when an Internet connection enabled it to establish a direct exporting relationship with a firm in New York rather than using local middlemen. Transkei University in South Africa has been able to provide better medical care to trauma victims through online consultations with doctors from Howard University. A $1 million investment in computerizing Mauritania's customs operations reduced processing time from 48 hours to 30 minutes and the time to clear goods from a week or more to a day or two. A project computerizing the tax system in the Philippines, which increased revenue and reduced administrative costs, had an estimated rate of return of over 200 percent.

The macroeconomic effects of IT on development are harder to assess, but one study found that each 10 percent increase in telephone lines per worker was associated with a 1.4 percent increase in per capita income. Several other studies have found that transportation and communication investment are more reliable predictors of growth than education expenditures and housing investment. While it is hard to make a definitive judgment about which way the causation runs in such associations, evidence on the success of individual IT projects suggests that these aggregate results reflect more than just rising demand for IT as a country's income rises.

It takes more than a market. The fact that IT investment can be a significant contributor to economic development does not mean that such investment will occur naturally through market forces in less developed countries. Besides the problems associated with an underdeveloped basic telecommunications infrastructure, many countries do not yet have in place a pro-competitive, deregulatory policy regime where the rule of law, adequate privacy protection, and secure transactions could allow e-commerce to flourish. Moreover, information and communications technology is likely to be prohibitively expensive for most users in developing countries, discouraging providers from entering the market. Creative financing like the micro-credit that allows a one-woman-cell-phone-operating company in Bangladesh to be profitable can help

PHOTOCOPY
WJC HANDWRITING

overcome these costs, but users in developing countries cannot make optimal use of IT without the right training and skills. Finally, applications of IT that are successful in developed countries may not be ideally suited to developing countries where bandwidth, English proficiency, and literacy are limited.

Policy implications. Market forces will ultimately provide the dynamism to drive IT investment, and governments in developing countries bear the main responsibility for creating a policy environment in which IT can flourish. But appropriate assistance such as the Internet for Economic Development Initiative and the DOT*force* established by the G-8 at the Okinawa summit can provide targeted assistance to help with policy development, human capacity building, and brokering private-public partnerships to diffuse IT. Progress in addressing these barriers is critical if the international digital divide that is already emerging is not to widen further.

10.16.00

SPECIAL ANALYSIS

Links between Regulatory and Technological Innovation

The use of market-based mechanisms to regulate power plant pollution has been widely hailed as a success because it has given electric utilities the flexibility to find the least costly ways of meeting pollution control requirements. Less appreciated, perhaps, is the role of monitoring technologies and information systems in making emissions trading systems feasible. The regulatory innovation of emissions trading markets brought competitive pressures and clear price signals to corporate decisionmaking about pollution control, and the resulting use of technology has been good for both the environment and the bottom line.

Gains from trade. Until the introduction of tradable emissions markets for SO_2 in 1994, the majority of air pollution regulation of utilities was done by mandating specific control technologies or maximum rates of emissions per unit of electricity output. The emissions market, by contrast, gave utilities the incentive to find the least-cost method of meeting their emissions reduction requirements. Firms that can reduce their emissions by more than their individual requirement can sell the additional reductions to other utilities. The savings from encouraging least-cost emissions reductions have been estimated at $20 billion (in 1995 dollars) over the 1995-2007 period.

Advances in monitoring technology. Unlike regulations that mandate specific actions or technologies, emissions markets cannot work without precise and verifiable measurement of all emissions covered by the market. Such measurement is achieved using continuous emissions monitors (CEMs) on each power plant stack, which measure and record emissions data that is then transmitted to the Environmental Protection Agency. The accuracy and reliability of these devices has improved dramatically through innovation in the computer hardware and software that interprets, records, and disseminates the data collected by individual probes in utility stacks. The resulting ability to measure SO_2 emissions from utilities precisely and affordably and to collect, process, and make that information available to the public accurately and quickly has benefited both EPA and the environmental groups that monitor the system for integrity. It has also helped utilities forecast the market conditions for emissions allowances.

Advances in trading technology. Advances in information technology have also been important for the development of the emissions permit market itself. EPA's allowance tracking system has made transactions data publicly available on the Internet daily, while private brokers make current price information available through the Internet within a short time of transactions being completed. This system has also allowed public scrutiny of all parts of the system for verification that environmental objectives have been met.

Advances in emissions reduction technology. The fact that reductions in emissions can be translated directly into cost savings has spurred the innovative

use of technology. Experiments in precise, subtle control of utility boilers spurred in large part by the high expected cost of NO_x allowances has resulted in the development of new analytical and operations software for these technologies. These controls prevent NO_x from forming during combustion; one recent study found that the cost of meeting a stringent level of control is only one-eighth of the cost of using conventional technologies that work by scrubbing pollutants out after they are formed. The removal of NO_x at very low additional engineering costs substantially reduces the anticipated cost of compliance with regulatory requirements.

Conclusion. The ability to measure emissions more cheaply and accurately has helped make emissions trading a successful pollution control strategy. Advances in information technology have improved the accuracy, reliability, and availability of information about emissions by source and about the prices of permits. At the same time, the development of a successful emissions trading market has spurred innovation in emissions reduction technologies themselves.

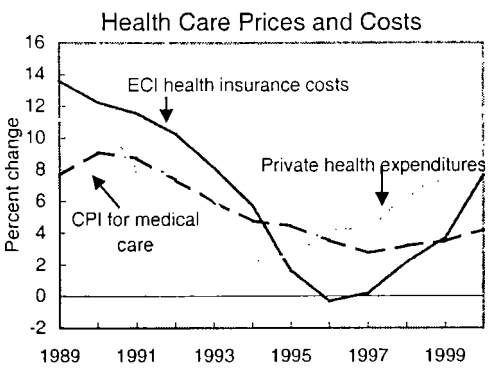
10-16-00

copied Sperling Jennings

ARTICLE

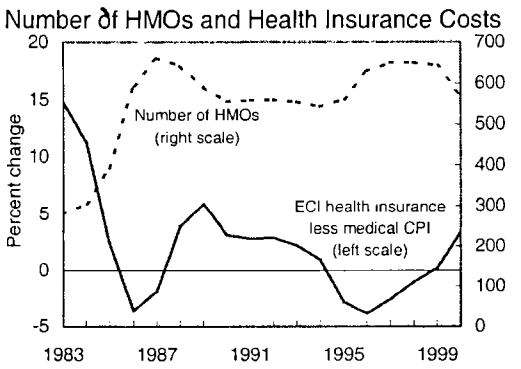
Why Are Health Insurance Premiums Rising So Fast?

Sharply rising health insurance premiums are starting to make news again, after a period of relatively modest increases. Three main factors seem to be at work: a "catch-up" of premiums to costs following a period when competition kept premium growth low, the end of a shift from higher-cost fee-for-service plans to lower-cost managed care plans, and rising costs within plans.



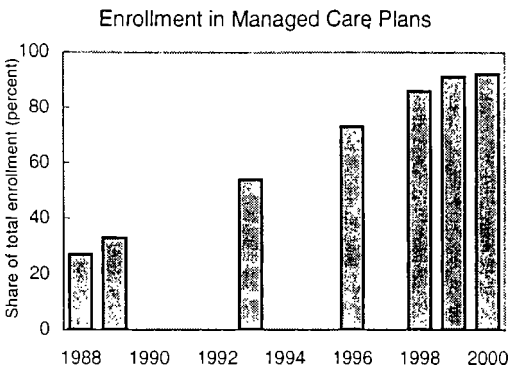
Trends. The health insurance component of the employment cost index (ECI) rose 7.6 percent in the 12 months ending in March—a sharp increase from the previous year (see upper chart). Health insurance premiums are now growing significantly faster than the medical care component of the consumer price index, and about as fast as private health expenditures.

Competitive effects and "catch-up" pricing. The recent rise in premium growth is part of a health insurance pricing cycle that may reflect the ebb and flow of competitive pressures. The lower chart, which uses the number of HMOs as a proxy for competition, shows that the change in employers' cost of health insurance premiums over and above the change in health care prices tends to narrow (and turn negative) when competition is more intense and to increase when competition is weaker. Insurers are now raising premiums after a period of competition in the mid-to-late 1990s, when premiums grew more slowly than health care prices and costs. Such behavior is reflected in the difference between the increase from 1999 to 2000 in premium equivalents for companies that self-insure (7.1 percent) and the increase for fully insured plans (9.6 percent).



Managed care saturation. Managed care plans tend to have lower premium costs than traditional fee-for-service plans, and one of the ways employers could lower their insurance costs was to switch into a managed care plan. Even if premiums were rising at the same rate for both managed care and conventional plans, this shift into managed care would slow the rate of growth of aggregate premiums. A rough estimate is that this substitution effect directly slowed the growth of premiums by about 1 percentage point per year between 1988 and

10-16-00



2000, and several researchers believe that the expansion of managed care had an additional indirect effect in keeping growth in premiums down for all types of plans. However, opportunities for further substitution have largely been exhausted as managed care plans now dominate the employer-based health insurance market (see chart).

Relaxed cost controls. Controls over cost and utilization that helped managed care plans keep premiums down appear to have provoked a backlash and have been relaxed recently. For example, 20 percent of people covered by HMOs are now in open-access plans, where members can see specialists without a referral from a primary care physician; a smaller percentage of workers are in plans with mandatory generic drug-use requirements; and the use of pre-existing condition clauses has decreased since the enactment of HIPAA in 1996.

Less power over providers. Similarly, changes in the provider market may have reduced the bargaining power that managed care plans used to keep costs down in the past. In contrast to early HMOs, where physicians were direct employees (the staff model) or under contract to just one plan (the group model), by 2000 only 21 percent followed the staff or group model, while 41 percent of HMOs contracted with independent practice associations. These associations in turn contract with individual physicians who may belong to more than one HMO and see patients outside HMOs. In addition, the wave of hospital mergers in the 1990s may have decreased the ability of managed care plans to bargain for lower hospital prices.

Prescription drug costs. Increases in prescription drug expenditures appear to be an important contributor to rising health insurance premiums. Annual growth in drug expenditures went from less than 10 percent in 1993 to over 15 percent in 1998, and indications are that expenditures are currently rising even faster than that. Analysis of the increase in drug expenditures from 1993 to 1998 indicates that an increase in the number of prescriptions accounted for 43 percent of the drug cost growth, a switch from older drugs to newer, more costly drugs accounted for 39 percent, and increases in drug prices accounted for 18 percent.

The bottom line. Each of the factors discussed in this article has contributed to the recent growth of health insurance premiums, which are projected to rise another 9 to 12 percent for 2001. About 8 percentage points reflect increases in private health care expenses, with the rest likely due to catch-up pricing. The sources of increased health care costs are, roughly, 4 percentage points from higher prices (including higher prescription drug prices); 2 percentage points from increased use of new and existing drugs; and 2 percentage points from higher utilization of physician and hospital services and increased use of expensive medical technology. With managed care plans now dominating the market, little of this increase is likely to be offset by plan switching.

PHOTOCOPY
WJC HANDWRITING

10-16-00

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Microeconomists Share a "Macro" Prize. James Heckman of the University of Chicago and Daniel McFadden of the University of California-Berkeley will share the 2000 Nobel Prize in Economic Sciences of roughly $900,000 for their work in empirical microeconomics. The Academy cited Heckman's econometric work involving problems of self-selection, including analyses of the effect of education on earnings when some people choose not to participate in the labor force, and evaluations of job training programs when people do not decide whether or not to participate in such a program on the basis of random chance. McFadden was cited for his work on mathematical models in which people choose from a discrete set of alternatives. He has applied such models to the study of choices about whether to use public transportation, the demand for telephone service, and the demand for housing among the elderly.

Where Has All the Heating Oil Gone? It is well-known that primary inventories of distillate (used for heating oil and diesel fuel) are below their normal range for the beginning of the winter heating season. At the same time, however, production of distillate in August and September took place at a winter-like rate of 4 million barrels per day. As a result, the amount of distillate that left refineries and primary storage facilities during this period exceeded typical seasonal levels by about 400,000 barrels per day. Unfortunately, we do not have data on where this distillate has gone. Some use appears to reflect strong diesel demand, and exports to Europe cannot be ruled out. A third intriguing possibility, however, is that fuel oil suppliers and distributors, and households, have been building up inventories against expected winter shortages. Such behavior would provide another small buffer on top of that provided by the release of oil from the Strategic Petroleum Reserve. Nevertheless, consumers can expect their heating bills to be higher this year than they were last year, when the weather in the Northeast was unusually mild and crude oil prices were lower.

The Benefits of Vaccinating Preschoolers against the Flu. The economic cost of influenza is substantial: 37 million days of school and 70 million days of work were lost in 1996, not including those missed to care for sick family members. A new study finds that vaccinating childcare center enrollees aged 2-5 reduces illness among their families. More precisely, vaccinating the family toddler against the flu meant a 47 percent decrease in the incidence of flu-like illnesses among unvaccinated household members. Benefits were especially strong for school-aged family members—the 5-17-year-old family members of vaccinated toddlers reported 80 percent fewer flu-like illnesses and 70 percent fewer missed days of school than the school-aged family members of unvaccinated toddlers. The study did not find any conclusive evidence that vaccinating toddlers made adult family members less likely to report flu-like illnesses, perhaps because more than a third of the adults in the study were already vaccinated against the flu. However, none of the adults in households with vaccinated toddlers reported missing work to care for children with flu-like illnesses, compared with 23 percent of the adults in households with unvaccinated toddlers.

INTERNATIONAL ROUNDUP

OECD Measures the ICT Sector. The United States accounted for almost half of all value added in the Information and Communications Technology (ICT) sector of OECD countries in 1997, according to a recent report from the organization. The United States' 49.5 percent share of ICT value added is larger than its 41.5 percent of total business sector value added. ICT contributed about 8.7 percent of value added in the U.S. business sector in 1997, compared with an OECD average of 7.4 percent. By contrast, the United States accounted for only about 35 percent of total ICT employment in the OECD. Within the United States, about 3.9 percent of business sector employment is in ICT. This is near the OECD average of 3.6 percent and well below Sweden's 6.3 percent. The OECD indicators also show that R&D in the ICT sector is highly concentrated in the United States (52 percent of the OECD total) and Japan (22 percent). Finally, ICT trade is significant in many OECD countries, though most, including the United States, have ICT trade deficits.

Potential Gains from Globalization Remain Large. Despite the substantial global gains from trade already achieved, barriers associated with distance and other factors remain substantial, according to a recent study. Using a model of trade flows in manufactured goods among 19 OECD countries, the study finds that the complete elimination of trade would have relatively small effects on the United States, where imports are a relatively small fraction of manufacturing. In countries more dependent on trade, the effects would be larger relative to the size of the economy (10 times as large in Belgium, for example). Turning to the effects of remaining barriers, the study finds that if it were possible to eliminate completely transportation costs and other barriers associated with distance, the gains to the United States would be 16 times as large as the estimated cost of eliminating all trade, with similarly large effects for other countries. These results imply that, even with increased globalization, the world remains much closer to a situation of no trade than to a frictionless global economy.

Commodity Price Shocks Have Asymmetric Effects on Growth. Large negative commodity price shocks significantly reduce per capita growth rates, according a new study. Based on data from 113 countries over the 1957-97 period, the authors find that the effect of negative shocks remains significant after controlling for government economic policy, institutional quality, and social cohesion. This indicates that the results cannot be attributed exclusively to inappropriate policy responses on the part of governments. Positive price shocks, by contrast, are found to have no lasting impact on growth, confirming earlier findings that windfalls from trade shocks do not translate into sustainable increases in income. This finding may reflect the failure of governments to save the windfalls or lock in savings. Decisions to channel the funds into low-return projects for political rather than economic reasons could also explain why positive price shocks have no long-lasting favorable effects.

RELEASES THIS WEEK

Retail Sales

****Embargoed until 8:30 a.m., Friday, October 13, 2000****

Advance estimates show that retail sales rose 0.9 percent in September following an increase of 0.1 percent in August. Excluding sales in the automotive group, retail sales rose 0.7 percent following an increase of 0.2 percent.

Producer Price Index

****Embargoed until 8:30 a.m., Friday, October 13, 2000****

The producer price index for finished goods rose 0.9 percent in September. Excluding food and energy, producer prices rose 0.3 percent.

MAJOR RELEASES NEXT WEEK

Industrial Production and Capacity Utilization (Tuesday)
Consumer Prices (Wednesday)
Housing Starts (Wednesday)
U.S. International Trade in Goods and Services (Thursday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	1999:4	2000:1	2000:2
Percent growth (annual rate)					
Real GDP (chain-type)	2.9	5.0	8.3	4.8	5.6
GDP chain-type price index	5.2	1.6	1.6	3.3	2.4
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	4.1	8.0	1.9	5.7
Real compensation per hour:					
Using CPI	1.0	2.2	1.3	0.0	1.7
Using NFB deflator	1.5	3.3	2.9	1.1	2.9
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.9	13.0	13.4	13.7
Residential investment	4.5	4.3	4.3	4.3	4.2
Exports	8.2	10.6	10.8	10.8	11.0
Imports	9.2	13.4	13.9	14.2	14.6
Personal saving	6.6	1.6	1.1	0.1	0.2
Federal surplus	-2.8	1.3	1.5	2.4	2.4

	1970-1993	1999	July 2000	August 2000	September 2000
Unemployment Rate (percent)	6.7**	4.2**	4.0	4.1	3.9
Payroll employment (thousands)					
increase per month			-40	-91	252
increase since Jan. 1993					22266
Inflation (percent per period)					
CPI	5.8	2.7	0.2	-0.1	N.A.
PPI-Finished goods	5.0	2.9	0.0	-0.2	**0.9**

**Figures beginning 1994 are not comparable with earlier data.

New or revised data in **boldface.**
PPI data **embargoed until 8:30 a.m., Friday, October 13, 2000.**

FINANCIAL STATISTICS

	1998	1999	August 2000	September 2000	Oct. 12, 2000
Dow-Jones Industrial Average	8626	10465	11015	10968	10035
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	6.09	6.00	6.01
10-year T-bond	5.26	5.65	5.83	5.80	5.73
Mortgage rate, 30-year fixed	6.94	7.43	8.03	7.91	7.84
Prime rate	8.35	8.00	9.50	9.50	9.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level** October 12, 2000	**Percent Change from** Week ago	Year ago
Euro (in U.S. dollars)	0.864	-0.5	-19.5
Yen (per U.S. dollar)	107.6	-1.6	1.2
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	101.4	-0.1	10.4

International Comparisons [1]	**Real GDP growth** (percent change last 4 quarters)	**Unemployment rate** (percent)	**CPI inflation** (percent change in index last 12 months)
United States	6.1 (Q2)	3.9 (Sep)	3.4 (Aug)
Canada	5.3 (Q2)	7.1 (Aug)	2.5 (Aug)
Japan	0.8 (Q2)	4.6 (Aug)	-0.7 (Aug)
France	3.4 (Q2)	9.7 (Aug)	1.7 (Aug)
Germany	3.6 (Q2)	8.3 (Aug)	1.8 (Aug)
Italy	2.6 (Q2)	10.6 (Jul)	2.6 (Aug)
United Kingdom	3.2 (Q2)	5.4 (Jun)	3.0 (Aug)

1/ For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics.