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THE PRESIDENT HAS SEEN  
8-20-96

# 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

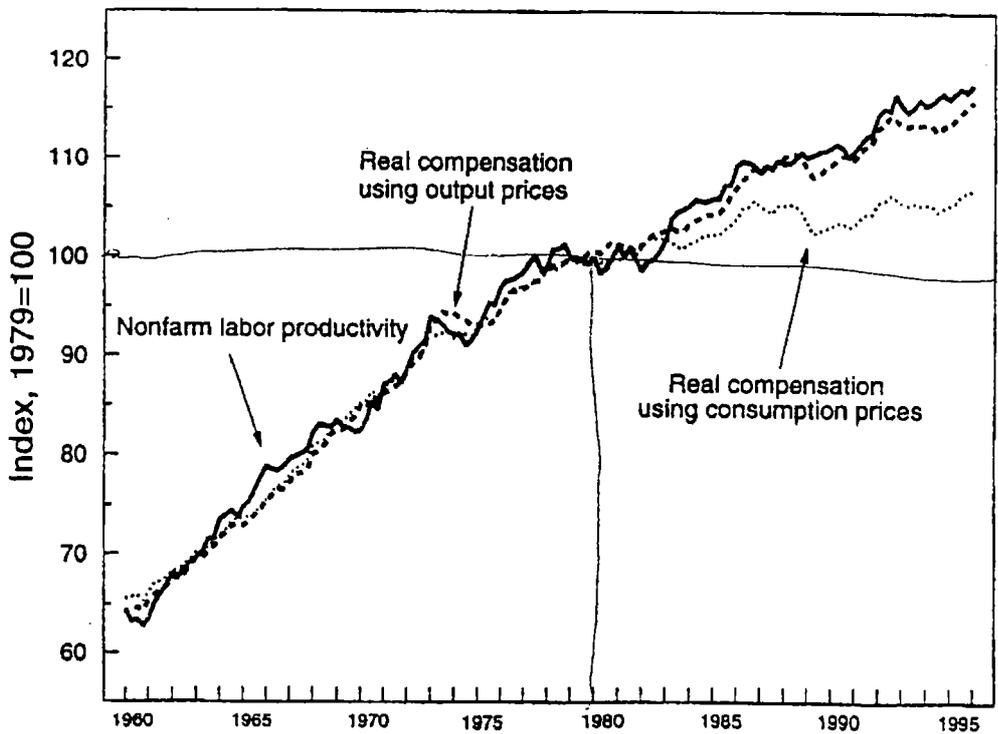
August 9, 1996

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## CHART OF THE WEEK

### Real Compensation and Productivity



Stislitz  
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Productivity is the key to rising real compensation (wages plus fringe benefits). When output prices are used to adjust for inflation, real compensation has grown roughly in line with productivity—as economic theory suggests it should have (see Weekly Economic Briefing, February 2, 1996). However, because the prices of goods and services workers consume have grown faster than the prices of goods and services they produce, real compensation computed using consumption prices has grown more slowly than productivity. Two Special Analyses in this Weekly Economic Briefing address trends in real income and compensation.

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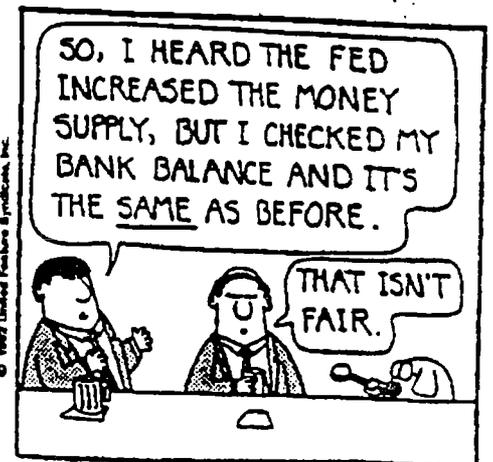
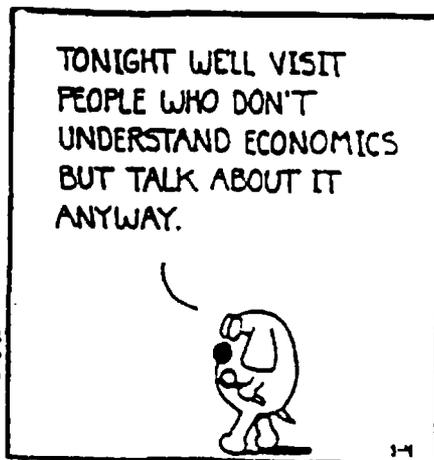
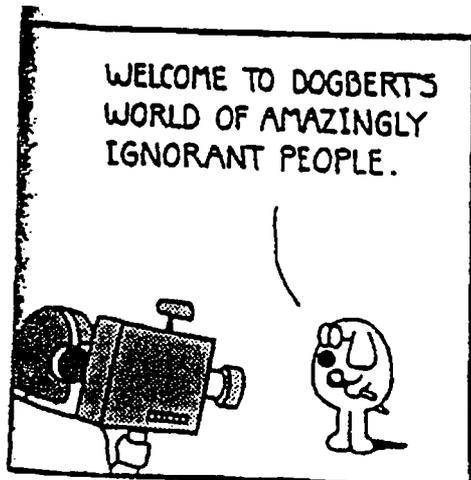
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# SPECIAL ANALYSIS

## Sharp Slowdown in Health Benefit Costs May Portend Rise in Real Wages

PHOTO COPY  
DATE: 10/11/96

Although real wages have been essentially flat for the past 15 years or so, real compensation has grown at a pace consistent with productivity growth (see Chart of the Week). Sharp increases in the cost of fringe benefits, particularly employer-provided health insurance, left little room for wage increases over most of this period. But health insurance costs have slowed recently, possibly heralding a rise in real wages.

**Trends.** The chart shows trends in real compensation, wages, and employer health benefit costs as measured in the employment cost index (ECI), using the consumer price index to adjust for inflation. Like other measures of real wages, ECI real wages



have not moved much in a decade and a half (see Weekly Economic Briefing, August 2, 1996). Real compensation, by contrast, rose modestly between the mid-1980s and the mid-1990s, but it has leveled off recently.

Employer-provided health benefit costs, which more than doubled in real terms between 1982 and 1994, fell sharply after that. Possible reasons for this reversal include slower increases in the prices of medical care services, a shift toward managed care, increased premium cost-sharing with employees, and a reduction in the number of workers with employer-paid health insurance.

**Analysis.** In a textbook labor market, wages and fringe benefits are fungible components of total compensation. A rise in one component would be expected to lead firms to reduce another component in order to keep total real compensation in line with productivity. This is what appears to have happened in the 1980s and early 1990s when wages were held in line to compensate for sharply rising health benefit costs. Beginning in 1994, however, growth in total compensation has lagged trend productivity growth. ~~To some extent, the sudden reversal in firms' health care expenses, and particularly smaller increases in the price of medical care, may have come as a surprise to firms. As firms adjust to the new fringe benefit cost structure, wages may begin to rise.~~

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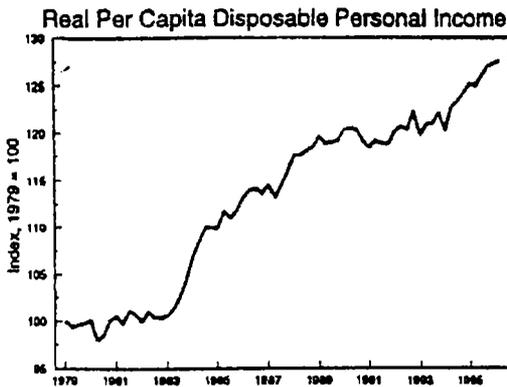
PHOTOCOPY  
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# SPECIAL ANALYSIS

## Average Income Is Up, But Median Income Lags Behind

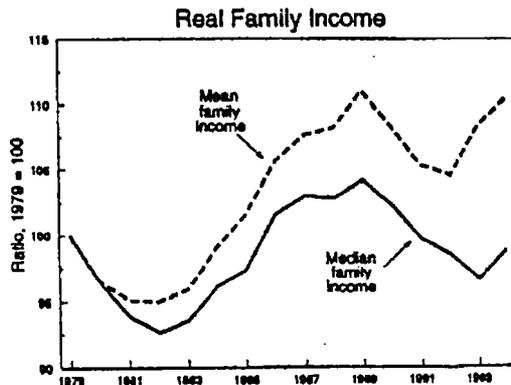
Average real income has risen over the past two decades. But this increase largely reflects gains at the top of the income distribution. Real median family income, a better indicator of the experience of the typical family, rose 2.3 percent in 1994, but remains below where it was in 1979.

**NIPA data.** Data from the National Income and Product Accounts (NIPA) indicate that real disposable personal income per capita—income per person after taxes—rose 1.3 percent per year between 1979 and 1993 (see upper chart). It has risen 2.0



percent a year since the beginning of 1993, after 4 years of literally no growth. Overall, this income growth seems impressive, but the NIPA data only measure an average. They do not provide any insight into the distribution of income around that average.

**Current Population Survey.** Data from the Current Population Survey (CPS) are useful for studying the income distribution. The CPS uses a different income concept from the NIPA (for example, average family income in the CPS excludes employer-provided fringe benefits, is calculated before taxes, and is affected by changing family structure). A key difference is that NIPA real incomes are typically computed using the GDP deflator, whereas consumer prices are used for the CPS. When comparable deflators are used, CPS average family income grows at about the same rate as NIPA real disposable income per capita.



But the CPS data allow us to measure more than just the average. They show that between 1979 and 1993 real mean family income rose 0.6 percent per year, while the median fell 0.2 percent per year. This pattern indicates that income inequality was increasing. In 1994, by contrast, the mean rose 1.9 percent, and the median rose a somewhat higher 2.3 percent, indicating a modest reduction in income inequality. Economic growth in

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## SPECIAL ANALYSIS

### **Wage Differentials Show People Are Willing to Pay to Do the Right Thing**

People often say they want to behave in a socially responsible way. But do they put their money where their mouths are? Evidence from labor markets suggest that they do—and perhaps women more so than men.

Economic theory suggests that if many of us prefer to act unselfishly rather than greedily, we should be willing to take less pay to work in a job we consider socially responsible. Companies that earn a reputation for social responsibility should be able to hire workers more cheaply than those with a bad reputation.

**It's not just what you earn; it's what you do and where you do it.** Substantial salary differentials, correlated with measures of social responsibility, confirm that people are willing to make considerable sacrifices to pursue broad social goals, according to recent studies of labor market behavior. One study uses a sample of 1986 and 1987 Cornell University graduates, and shows that holding academic training and performance constant, these students were willing to take a 14 percent pay cut to work in the government and a 52 percent pay cut to work for non-profits.

The researcher then added “social responsibility” ratings for jobs and employers, garnered from students in business ethics courses. He found that students took a 54 percent pay cut to work in the most socially responsible jobs compared to the least, and a 21 percent pay cut to work for the most socially responsible employers—even holding the profit/non-profit status of the employer constant. Combining the effects of occupation ratings and profit status, the study indicates that a “least responsible” job with a for-profit employer would have to pay as much as double the salary of a “most responsible” job with a non-profit employer.

Either unselfish conscience or a selfish interest in one's reputation could explain these findings, yet under either interpretation, they indicate a substantial willingness to pay for the “moral high ground.” This conclusion needs to be modified to the extent that “socially responsible” jobs or non-profit employers offer other non-wage benefits like greater job security or more flexible work hours in addition to a sense of “doing the right thing.”

**Another look at the gender gap?** The study finds that if one controls for types of courses taken, grades, and social responsibility ratings, the wage differential for males over females among the graduates in this data set becomes statistically insignificant. The results tentatively suggest that choices of courses and a lower willingness among males to pursue more socially responsible careers may contribute to male-female wage inequality. Another explanation for the finding could be that we tend to impute social responsibility to some occupations predominately filled by women that pay low wages.

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ARTICLE

**Tax Changes Since 1980: A Retrospective**

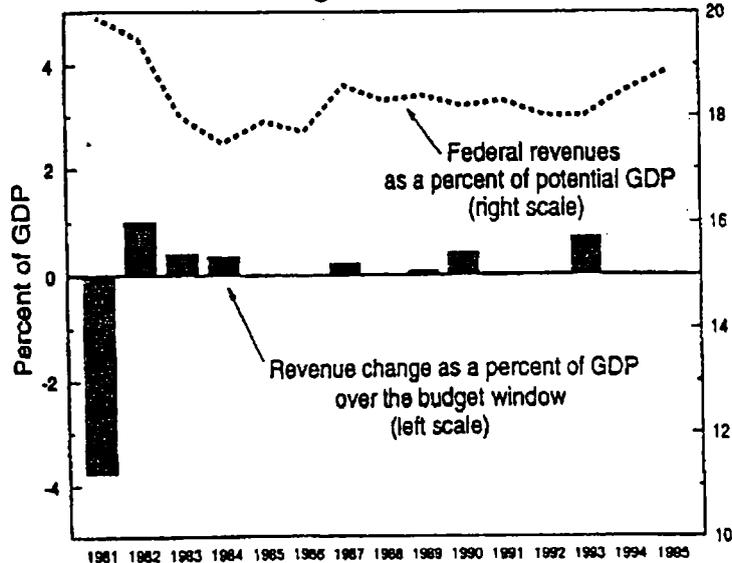
The \$548 billion tax cut proposal floated this week and the recent flurry of tax legislation from the Congress has focused economists' attention on the tax system. Compared to the tax cut enacted in 1981, recent proposals seem relatively small. The \$548 billion proposal works out to less than 1 percent of GDP a year, averaged over the 6-year budget window. Still, a large tax cut would reverse a 15-year trend of tax bills intended to staunch the tide of red ink from the huge 1981 tax cuts.

A number of points emerge from the chronology in the table on the next two pages.

- The Economic Recovery Tax Act of 1981 was expected to lose revenues averaging 3.6 percent of GDP per year over the 6-year budget window. Longer run revenue costs were estimated to be even larger, because the indexing provisions had a cumulative effect over time. For example, the estimated 1986 revenue costs of the 1981 legislation were more than 6.5 percent of GDP.
- Since 1981, Congress has enacted 10 major tax Acts. Revenues as a percent of GDP, which dropped sharply from their historic norm in the wake of the 1981 legislation, have returned closer to pre-1981 levels.
- The 1982 Act tax increases (0.9 percent of GDP) were roughly one-third larger than the tax increases contained in OBRA-93 (0.7 percent of GDP).
- The Tax Reform Act of 1986 was supposed to be revenue neutral but business tax receipts have fallen short of projections, because businesses found unforeseen ways to reduce their tax liabilities.

*are there programs?*

**Tax Changes and Revenues**



Year	Tax Act	Major Provisions	Percent of GDP
1981	Economic Recovery Tax Act (ERTA)	<p>Reduced individual tax rates (e.g., top rate reduced from 70% to 50%)</p> <p>Indexed tax brackets and other items for inflation (starting in 1984)</p> <p>Provided very accelerated depreciation deductions and 10% investment credit</p> <p>Greatly expanded availability of IRAs</p>	-3.76
1982	Tax Equity and Fiscal Responsibility Act (TEFRA)	<p>Reduced generosity of depreciation deductions and effective size of investment tax credit</p> <p>Repealed "safe harbor" leasing</p> <p>Increased information reporting on economic transactions</p>	+0.93
1982	Highway Revenue Act	<p>Increased motor fuels excise tax by 5 cents per gallon</p>	+0.08
1983	Social Security Amendments of 1983	<p>Accelerated tax rate increases already scheduled for 1990</p> <p>Increased payroll taxes on self-employed</p> <p>Included Social Security benefits in taxable income for the first time</p>	+0.41
1984	Deficit Reduction Act of 1984	<p>Contained many items – including a reduction in income averaging benefits</p>	+0.36
1986	Tax Reform Act of 1986	<p>Reduced individual tax rates (e.g., top rate reduced from 50% to 28%)</p> <p>Increased EITC</p> <p>Increased standard deduction and personal exemption amounts</p> <p>Eliminated some deductions (e.g., sales tax)</p> <p>Limited deductible tax losses</p> <p>Repealed investment tax credit and introduced less accelerated depreciation schedules</p>	-0.01

1987	Omnibus Budget Reconciliation Act of 1987 (OBRA-87)	Contained numerous relatively small tax increases	+0.23
1988	Technical and Miscellaneous Revenue Act of 1988	Extended expiring provisions Created tax incentive for using savings bonds to pay for educational expenses	+0.00
1989	OBRA-89	Extended expiring provisions Contained numerous small tax increases	+0.08
1990	OBRA-90	Extended expiring provisions Increased EITC Added 31 percent tax rate for individuals Increased motor fuels tax by 5 cents per gallon Increased Medicare wage cap to \$125,000	+0.42
1993	OBRA-93	Increased income tax rates on high-income individuals Repealed Medicare wage cap Increased portion of Social Security benefits subject to income taxation Expanded EITC Increased maximum corporate tax rate to 35 percent Increased motor fuels tax by 4.3 cents per gallon	+0.70

Notes: Estimated revenue changes are expressed as a percent of GDP over the relevant budget window to facilitate comparison between tax acts. Generally, the budget window is 6 years long, but is only 3 years for the 1987 and 1988 Acts.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

**Beige Book Reports Moderating Growth and Stable Inflation.** The U.S. economy continued to grow during June and July, but the pace of growth is beginning to moderate according to new reports from Federal Reserve district banks. They report little sign of wage or price pressures. Retail sales have slowed in most districts, particularly for durable goods such as home furnishings and electronics. Most districts report continued growth in manufacturing, including some pickup in hiring. Housing markets remained fairly strong, and commercial and industrial real estate markets picked up. Brisk tourism activity was evident on the East and West Coasts and, not surprisingly, in the Atlanta area.

**Are Computers Increasing Productivity?** An economist has quipped that "we see computers everywhere but in the productivity statistics." But that may be changing. Real investment in Computers and Peripheral Equipment (CPE) has increased dramatically over the past quarter-century, from less than one tenth of a percent of total private investment in producer durable equipment in 1971 to 17 percent in 1995. The Federal Reserve Bank of St. Louis reports that we may be on the verge of a productivity growth surge. History teaches that gains from earlier innovations, such as Watt's steam engine and Ford's production methods, took time to disperse through the economy. Similarly, as more individuals and businesses learn to use the full potential of computers, aggregate productivity may increase dramatically. Evidence already exists that computers are raising productivity in the Federal Government; a new study finds that computers have made an important contribution to output growth and suggests that the return to investment in computers has exceeded that of other types of equipment.

**Students Likely to Fail if Parents Fail to be Involved.** A newly completed 10-year study concludes that parents and peers are the most crucial influences on teenagers' school performance. The study finds a peer culture that demeans high academic performance and reports that parents have become "seriously disengaged" from their children's lives. A survey of a broad cross section of students revealed that half of the students say they could bring home grades of "C" or worse without upsetting their parents. More than 40 percent report that their parents never attend school programs. The study found that some parents want to be involved but are too busy if both parents work. It concluded that more than a quarter of all parents are basically uninvolved, preoccupied or negligent of their children. The researchers offered advice to parents based on their findings. They contend that attending school programs and extra-curricular activities are a more effective way to encourage students than monitoring homework. And, they observe that parents of the most successful students "work the system" by consulting with teachers and following through on their suggestions.

## INTERNATIONAL ROUNDUP

**With Budget Revenues below Targets, Russian Government Reneges on Campaign Spending Promises.** In the first 6 months of 1996, tax collections in Russia amounted to only 70 percent of the target set out in its loan agreement with the IMF. This puts pressure on the government to backtrack on spending promises made during the presidential campaign. Reports suggest that several of the most expensive presidential promises could be suspended in the near future. Already, the government appears to be holding back on its financial obligations. More than 40,000 miners are reported to be on strike for outstanding government pay, and into August roughly 60 percent of Russia's pensioners had not received their July payments.

**International Science Efforts Set to Suffer From Germany's Budget Cuts.** As part of the budget package announced by Chancellor Kohl last month, the German government has proposed to reduce its contributions to five European research laboratories by an average of 6 percent in the next financial year. The European Laboratory for Particle Physics, in Geneva, is likely to be one of the hardest hit, possibly jeopardizing the future of a particle accelerator currently being built there. American scientists are particularly interested in the project, because the United States does not have an accelerator of comparable power. European scientists fear that Germany's proposed cuts are just the beginning of a general move throughout Europe to reduce spending on international basic science facilities. This is because in most cases, Germany's share of the budgets of international research organizations is determined by a legally-binding treaty, and could not be reduced without accepting a comparable reduction in the contributions from other member states.

**Canadian Legislators Seek Restitution For Property Lost In American Revolution.** Two members of Canada's parliament recently introduced "The American Liberty and Democratic Solidarity Act", written as a spoof of the Helms-Burton legislation. Under the proposed law, the Canadian government would be mobilized against companies or individuals "trafficking" in land seized from Loyalists during the American Revolution. Visas could be revoked, permits denied, and penalties imposed on the Canadian assets of U.S. businesses or individuals who own property which used to belong to Loyalists who fled to Canada. According to the proponents of the legislation, reparations to families that remained loyal during the Revolution, although set out in the 1783 Treaty of Paris, were never paid. But historical legwork done by the U.S. Senate's Committee on Foreign Relations shows that in 1802 the United States reached final settlement with Great Britain on all debts—including compensation to Crown Loyalists who had property confiscated during the Revolutionary War.

RELEASES THIS WEEK

**Producer Price Index**

**\*\*Embargoed until 8:30 a.m., Friday, August 9, 1996\*\***

The producer price index for finished goods was unchanged in July. Excluding food and energy, producer prices increased 0.1 percent.

**Leading Indicators**

The index of leading economic indicators increased 0.5 percent in June.

MAJOR RELEASES NEXT WEEK

- Consumer Prices (Tuesday)
- Retail Sales (Tuesday)
- Productivity (Wednesday)
- Industrial Production and Capacity Utilization (Thursday)
- Housing Starts (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1995	1995:4	1996:1	1996:2
<b>Percent growth (annual rate)</b>					
Real GDP (chain-type)	2.7	1.3	0.3	2.0	4.2
GDP chain-type price index	5.3	2.5	2.1	2.3	2.1
<b>Nonfarm business (NFB) sector:</b>					
Productivity (chain-type)	1.5	0.3	-0.8	2.1	N.A.
Real compensation per hour:					
Using CPI	0.6	1.0	0.5	0.1	N.A.
Using NFB deflator	1.3	1.7	2.0	2.4	N.A.
<b>Shares of Nominal GDP (percent)</b>					
Business fixed investment	10.9	10.2	10.2	10.4	10.2
Residential investment	4.5	4.0	4.0	4.1	4.2
Exports	8.2	11.1	11.4	11.3	11.3
Imports	9.2	12.4	12.3	12.5	12.7
Personal saving	5.1	3.4	3.8	3.6	3.2
Federal surplus	-2.7	-2.2	-2.1	-2.1	N.A.
<hr/>					
	1970- 1993	1995	May 1996	June 1996	July 1996
<b>Unemployment Rate</b>	6.7**	5.6**	5.6	5.3	5.4
<b>Payroll employment (thousands)</b>					
increase per month			407	220	193
increase since Jan. 1993					10224
<b>Inflation (percent per period)</b>					
CPI	5.8	2.5	0.3	0.1	N.A.
PPI-Finished goods	5.0	2.3	-0.1	0.2	0.0

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

**New or revised data in boldface.**

**PPI data embargoed until 8:30 a.m., Friday, August 9, 1996.**

FINANCIAL STATISTICS

	1994	1995	June 1996	July 1996	August 8, 1996
<b>Dow-Jones Industrial Average</b>	3794	4494	5672	5496	5713
<b>Interest Rates</b>					
3-month T-bill	4.25	5.49	5.09	5.15	5.01
10-year T-bond	7.09	6.57	6.91	6.87	6.56
Mortgage rate, 30-year fixed	8.35	7.95	8.32	8.25	7.88
Prime rate	7.15	8.83	8.25	8.25	8.25

INTERNATIONAL STATISTICS

<b>Exchange Rates</b>	<b>Current level</b>	<b>Percent Change from</b>	
	<b>August 8, 1996</b>	<b>Week ago</b>	<b>Year ago</b>
Deutschemark-Dollar	1.484	0.7	5.2
Yen-Dollar	108.1	1.3	17.8
Multilateral \$ (Mar. 1973=100)	86.63	0.7	4.6

<b>International Comparisons</b>	<b>Real GDP growth</b>	<b>Unemployment rate</b>	<b>CPI inflation</b>
	<b>(last 4 quarters)</b>		<b>(last 12 months)</b>
United States	2.6 (Q2)	5.4 (Jul)	2.8 (Jun)
Canada	0.6 (Q1)	10.0 (Jun)	1.4 (Jun)
Japan	5.5 (Q1)	3.6 (Jun)	0.0 (Jun)
France	0.9 (Q1)	12.1 (May)	2.3 (Jun)
Germany	0.4 (Q1)	7.1 (May)	1.3 (Jun)
Italy	1.6 (Q1)	12.5 (Apr)	4.0 (Jun)
United Kingdom	1.9 (Q2)	8.3 (Jun)	2.2 (Jun)

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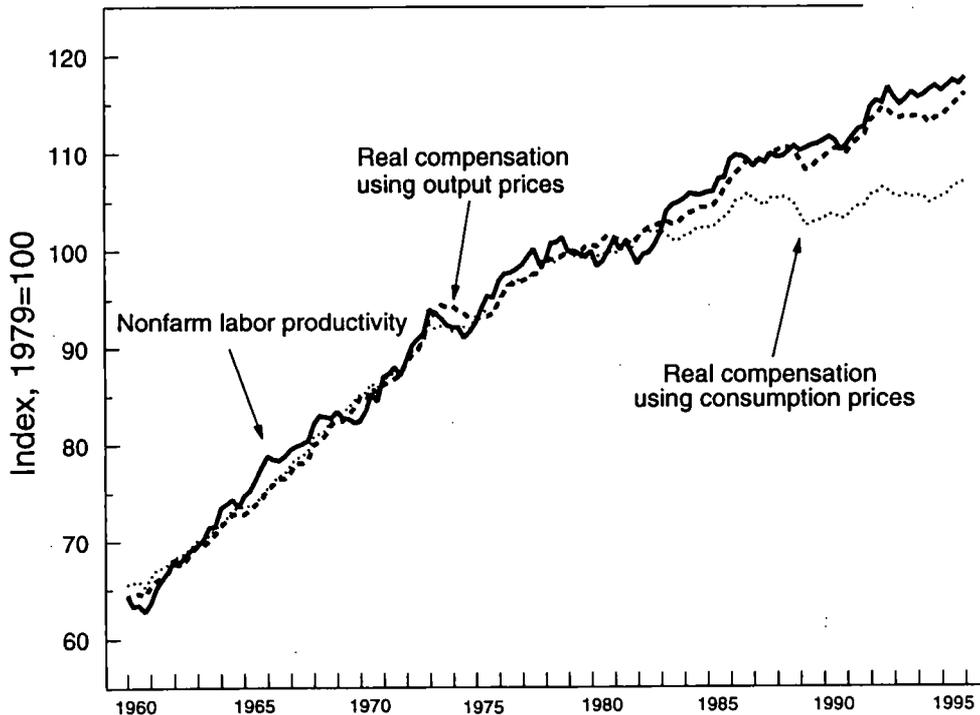
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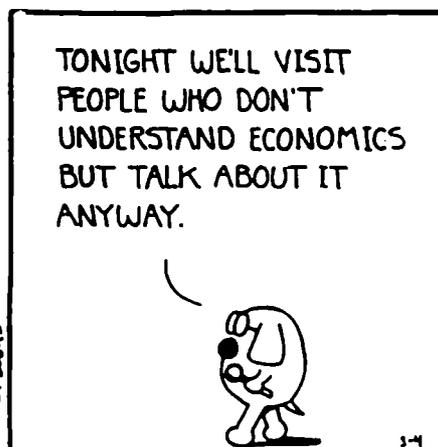
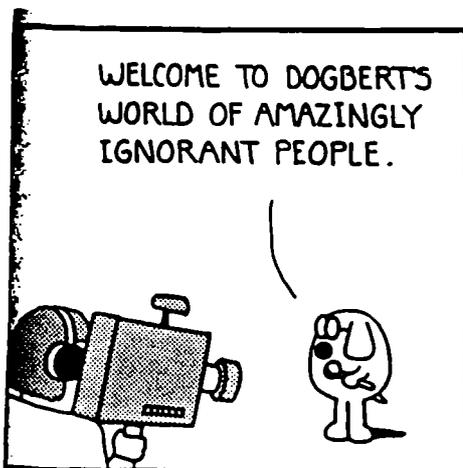
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## SPECIAL ANALYSIS

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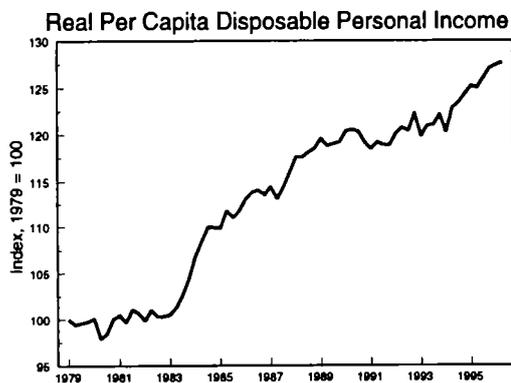
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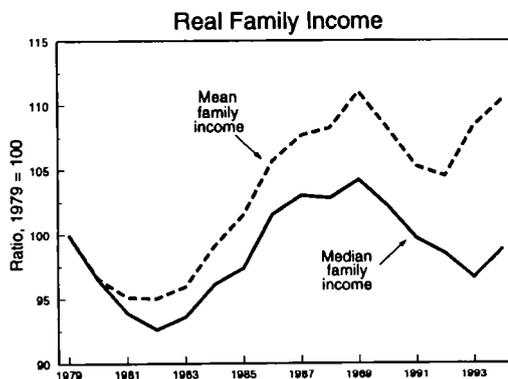
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**It's not just what you earn; it's what you do and where you do it.** Substantial salary differentials, correlated with measures of social responsibility, confirm that people are willing to make considerable sacrifices to pursue broad social goals, according to recent studies of labor market behavior. One study uses a sample of 1986 and 1987 Cornell University graduates, and shows that holding academic training and performance constant, these students were willing to take a 14 percent pay cut to work in the government and a 52 percent pay cut to work for non-profits.

The researcher then added “social responsibility” ratings for jobs and employers, garnered from students in business ethics courses. He found that students took a 54 percent pay cut to work in the most socially responsible jobs compared to the least, and a 21 percent pay cut to work for the most socially responsible employers—even holding the profit/non-profit status of the employer constant. Combining the effects of occupation ratings and profit status, the study indicates that a “least responsible” job with a for-profit employer would have to pay as much as double the salary of a “most responsible” job with a non-profit employer.

Either unselfish conscience or a selfish interest in one's reputation could explain these findings, yet under either interpretation, they indicate a substantial willingness to pay for the “moral high ground.” This conclusion needs to be modified to the extent that “socially responsible” jobs or non-profit employers offer other non-wage benefits like greater job security or more flexible work hours in addition to a sense of “doing the right thing.”

**Another look at the gender gap?** The study finds that if one controls for types of courses taken, grades, and social responsibility ratings, the wage differential for males over females among the graduates in this data set becomes statistically insignificant. The results tentatively suggest that choices of courses and a lower willingness among males to pursue more socially responsible careers may contribute to male-female wage inequality. Another explanation for the finding could be that we tend to impute social responsibility to some occupations predominately filled by women that pay low wages.

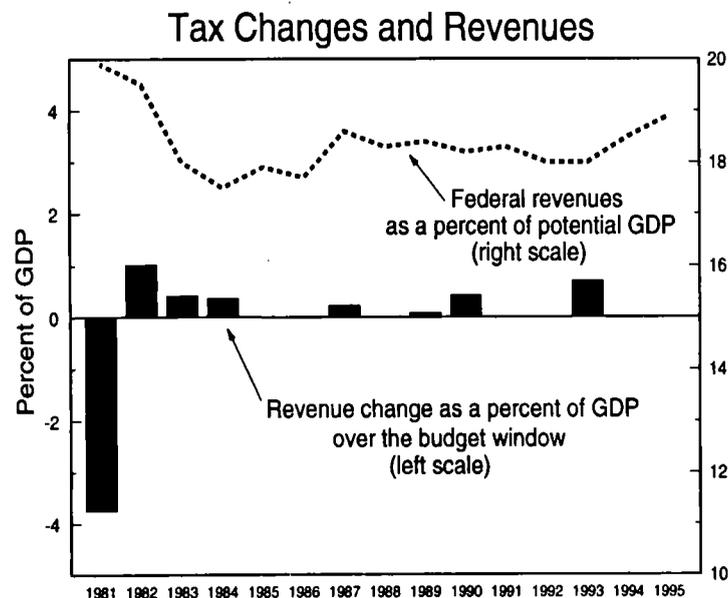
## ARTICLE

### Tax Changes Since 1980: A Retrospective

The \$548 billion tax cut proposal floated this week and the recent flurry of tax legislation from the Congress has focused economists' attention on the tax system. Compared to the tax cut enacted in 1981, recent proposals seem relatively small. The \$548 billion proposal works out to less than 1 percent of GDP a year, averaged over the 6-year budget window. Still, a large tax cut would reverse a 15-year trend of tax bills intended to staunch the tide of red ink from the huge 1981 tax cuts.

A number of points emerge from the chronology in the table on the next two pages.

- The Economic Recovery Tax Act of 1981 was expected to lose revenues averaging 3.6 percent of GDP per year over the 6-year budget window. Longer run revenue costs were estimated to be even larger, because the indexing provisions had a cumulative effect over time. For example, the estimated 1986 revenue costs of the 1981 legislation were more than 6.5 percent of GDP.
- Since 1981, Congress has enacted 10 major tax Acts. Revenues as a percent of GDP, which dropped sharply from their historic norm in the wake of the 1981 legislation, have returned closer to pre-1981 levels.
- The 1982 Act tax increases (0.9 percent of GDP) were roughly one-third larger than the tax increases contained in OBRA-93 (0.7 percent of GDP).
- The Tax Reform Act of 1986 was supposed to be revenue neutral but business tax receipts have fallen short of projections, because businesses found unforeseen ways to reduce their tax liabilities.



<b>Year</b>	<b>Tax Act</b>	<b>Major Provisions</b>	<b>Percent of GDP</b>
1981	Economic Recovery Tax Act (ERTA)	<p>Reduced individual tax rates (e.g., top rate reduced from 70% to 50%)</p> <p>Indexed tax brackets and other items for inflation (starting in 1984)</p> <p>Provided very accelerated depreciation deductions and 10% investment credit</p> <p>Greatly expanded availability of IRAs</p>	-3.76
1982	Tax Equity and Fiscal Responsibility Act (TEFRA)	<p>Reduced generosity of depreciation deductions and effective size of investment tax credit</p> <p>Repealed "safe harbor" leasing</p> <p>Increased information reporting on economic transactions</p>	+0.93
1982	Highway Revenue Act	Increased motor fuels excise tax by 5 cents per gallon	+0.08
1983	Social Security Amendments of 1983	<p>Accelerated tax rate increases already scheduled for 1990</p> <p>Increased payroll taxes on self-employed</p> <p>Included Social Security benefits in taxable income for the first time</p>	+0.41
1984	Deficit Reduction Act of 1984	Contained many items – including a reduction in income averaging benefits	+0.36
1986	Tax Reform Act of 1986	<p>Reduced individual tax rates (e.g., top rate reduced from 50% to 28%)</p> <p>Increased EITC</p> <p>Increased standard deduction and personal exemption amounts</p> <p>Eliminated some deductions (e.g., sales tax)</p> <p>Limited deductible tax losses</p> <p>Repealed investment tax credit and introduced less accelerated depreciation schedules</p>	-0.01

1987	Omnibus Budget Reconciliation Act of 1987 (OBRA-87)	Contained numerous relatively small tax increases	+0.23
1988	Technical and Miscellaneous Revenue Act of 1988	Extended expiring provisions Created tax incentive for using savings bonds to pay for educational expenses	+0.00
1989	OBRA-89	Extended expiring provisions Contained numerous small tax increases	+0.08
1990	OBRA-90	Extended expiring provisions Increased EITC Added 31 percent tax rate for individuals Increased motor fuels tax by 5 cents per gallon Increased Medicare wage cap to \$125,000	+0.42
1993	OBRA-93	Increased income tax rates on high-income individuals Repealed Medicare wage cap Increased portion of Social Security benefits subject to income taxation Expanded EITC Increased maximum corporate tax rate to 35 percent Increased motor fuels tax by 4.3 cents per gallon	+0.70

Notes: Estimated revenue changes are expressed as a percent of GDP over the relevant budget window to facilitate comparison between tax acts. Generally, the budget window is 6 years long, but is only 3 years for the 1987 and 1988 Acts.

## BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

**Beige Book Reports Moderating Growth and Stable Inflation.** The U.S. economy continued to grow during June and July, but the pace of growth is beginning to moderate according to new reports from Federal Reserve district banks. They report little sign of wage or price pressures. Retail sales have slowed in most districts, particularly for durable goods such as home furnishings and electronics. Most districts report continued growth in manufacturing, including some pickup in hiring. Housing markets remained fairly strong, and commercial and industrial real estate markets picked up. Brisk tourism activity was evident on the East and West Coasts and, not surprisingly, in the Atlanta area.

**Are Computers Increasing Productivity?** An economist has quipped that “we see computers everywhere but in the productivity statistics.” But that may be changing. Real investment in Computers and Peripheral Equipment (CPE) has increased dramatically over the past quarter-century, from less than one tenth of a percent of total private investment in producer durable equipment in 1971 to 17 percent in 1995. The Federal Reserve Bank of St. Louis reports that we may be on the verge of a productivity growth surge. History teaches that gains from earlier innovations, such as Watt’s steam engine and Ford’s production methods, took time to disperse through the economy. Similarly, as more individuals and businesses learn to use the full potential of computers, aggregate productivity may increase dramatically. Evidence already exists that computers are raising productivity in the Federal Government; a new study finds that computers have made an important contribution to output growth and suggests that the return to investment in computers has exceeded that of other types of equipment.

**Students Likely to Fail if Parents Fail to be Involved.** A newly completed 10-year study concludes that parents and peers are the most crucial influences on teenagers’ school performance. The study finds a peer culture that demeans high academic performance and reports that parents have become “seriously disengaged” from their children’s lives. A survey of a broad cross section of students revealed that half of the students say they could bring home grades of “C” or worse without upsetting their parents. More than 40 percent report that their parents never attend school programs. The study found that some parents want to be involved but are too busy if both parents work. It concluded that more than a quarter of all parents are basically uninvolved, preoccupied or negligent of their children. The researchers offered advice to parents based on their findings. They contend that attending school programs and extra-curricular activities are a more effective way to encourage students than monitoring homework. And, they observe that parents of the most successful students “work the system” by consulting with teachers and following through on their suggestions.

## INTERNATIONAL ROUNDUP

**With Budget Revenues below Targets, Russian Government Reneges on Campaign Spending Promises.** In the first 6 months of 1996, tax collections in Russia amounted to only 70 percent of the target set out in its loan agreement with the IMF. This puts pressure on the government to backtrack on spending promises made during the presidential campaign. Reports suggest that several of the most expensive presidential promises could be suspended in the near future. Already, the government appears to be holding back on its financial obligations. More than 40,000 miners are reported to be on strike for outstanding government pay, and into August roughly 60 percent of Russia's pensioners had not received their July payments.

**International Science Efforts Set to Suffer From Germany's Budget Cuts.** As part of the budget package announced by Chancellor Kohl last month, the German government has proposed to reduce its contributions to five European research laboratories by an average of 6 percent in the next financial year. The European Laboratory for Particle Physics, in Geneva, is likely to be one of the hardest hit, possibly jeopardizing the future of a particle accelerator currently being built there. American scientists are particularly interested in the project, because the United States does not have an accelerator of comparable power. European scientists fear that Germany's proposed cuts are just the beginning of a general move throughout Europe to reduce spending on international basic science facilities. This is because in most cases, Germany's share of the budgets of international research organizations is determined by a legally-binding treaty, and could not be reduced without accepting a comparable reduction in the contributions from other member states.

**Canadian Legislators Seek Restitution For Property Lost In American Revolution.** Two members of Canada's parliament recently introduced "The American Liberty and Democratic Solidarity Act", written as a spoof of the Helms-Burton legislation. Under the proposed law, the Canadian government would be mobilized against companies or individuals "trafficking" in land seized from Loyalists during the American Revolution. Visas could be revoked, permits denied, and penalties imposed on the Canadian assets of U.S. businesses or individuals who own property which used to belong to Loyalists who fled to Canada. According to the proponents of the legislation, reparations to families that remained loyal during the Revolution, although set out in the 1783 Treaty of Paris, were never paid. But historical legwork done by the U.S. Senate's Committee on Foreign Relations shows that in 1802 the United States reached final settlement with Great Britain on all debts—including compensation to Crown Loyalists who had property confiscated during the Revolutionary War.

## RELEASES THIS WEEK

### **Producer Price Index**

**\*\*Embargoed until 8:30 a.m., Friday, August 9, 1996\*\***

The producer price index for finished goods was unchanged in July. Excluding food and energy, producer prices increased 0.1 percent.

### **Leading Indicators**

The index of leading economic indicators increased 0.5 percent in June.

## MAJOR RELEASES NEXT WEEK

Consumer Prices (Tuesday)

Retail Sales (Tuesday)

Productivity (Wednesday)

Industrial Production and Capacity Utilization (Thursday)

Housing Starts (Friday)

## U.S. ECONOMIC STATISTICS

	1970– 1993	1995	1995:4	1996:1	1996:2
<b>Percent growth</b> (annual rate)					
Real GDP (chain-type)	2.7	1.3	0.3	2.0	4.2
GDP chain-type price index	5.3	2.5	2.1	2.3	2.1
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	0.3	-0.8	2.1	N.A.
Real compensation per hour:					
Using CPI	0.6	1.0	0.5	0.1	N.A.
Using NFB deflator	1.3	1.7	2.0	2.4	N.A.
<b>Shares of Nominal GDP</b> (percent)					
Business fixed investment	10.9	10.2	10.2	10.4	10.2
Residential investment	4.5	4.0	4.0	4.1	4.2
Exports	8.2	11.1	11.4	11.3	11.3
Imports	9.2	12.4	12.3	12.5	12.7
Personal saving	5.1	3.4	3.8	3.6	3.2
Federal surplus	-2.7	-2.2	-2.1	-2.1	N.A.
<hr/>					
	1970– 1993	1995	May 1996	June 1996	July 1996
<b>Unemployment Rate</b>	6.7**	5.6**	5.6	5.3	5.4
<b>Payroll employment</b> (thousands)					
increase per month			407	220	193
increase since Jan. 1993					10224
<b>Inflation</b> (percent per period)					
CPI	5.8	2.5	0.3	0.1	N.A.
PPI-Finished goods	5.0	2.3	-0.1	0.2	0.0

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

New or revised data in **boldface**.

PPI data **embargoed until 8:30 a.m., Friday, August 9, 1996.**

## FINANCIAL STATISTICS

	1994	1995	June 1996	July 1996	August 8, 1996
<b>Dow-Jones Industrial Average</b>	3794	4494	5672	5496	5713
<b>Interest Rates</b>					
3-month T-bill	4.25	5.49	5.09	5.15	5.01
10-year T-bond	7.09	6.57	6.91	6.87	6.56
Mortgage rate, 30-year fixed	8.35	7.95	8.32	8.25	7.88
Prime rate	7.15	8.83	8.25	8.25	8.25

## INTERNATIONAL STATISTICS

<b>Exchange Rates</b>	<b>Current level</b>	<b>Percent Change from</b>	
	<b>August 8, 1996</b>	<b>Week ago</b>	<b>Year ago</b>
Deutschemark-Dollar	1.484	0.7	5.2
Yen-Dollar	108.1	1.3	17.8
Multilateral \$ (Mar. 1973=100)	86.63	0.7	4.6

<b>International Comparisons</b>	<b>Real GDP growth</b>	<b>Unemployment rate</b>	<b>CPI inflation</b>
	<b>(last 4 quarters)</b>		<b>(last 12 months)</b>
United States	2.6 (Q2)	5.4 (Jul)	2.8 (Jun)
Canada	0.6 (Q1)	10.0 (Jun)	1.4 (Jun)
Japan	5.5 (Q1)	3.6 (Jun)	0.0 (Jun)
France	0.9 (Q1)	12.1 (May)	2.3 (Jun)
Germany	0.4 (Q1)	7.1 (May)	1.3 (Jun)
Italy	1.6 (Q1)	12.5 (Apr)	4.0 (Jun)
United Kingdom	1.9 (Q2)	8.3 (Jun)	2.2 (Jun)