

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: 21792
Scan ID: 175813SS
Document Number:

Folder Title:
BE

Stack:	Row:	Section:	Shelf:	Position:
S	83	4	3	3

175813 SS
THE PRESIDENT HAS SEEN
7-15-96
96 JUL 12 A10:58
BE

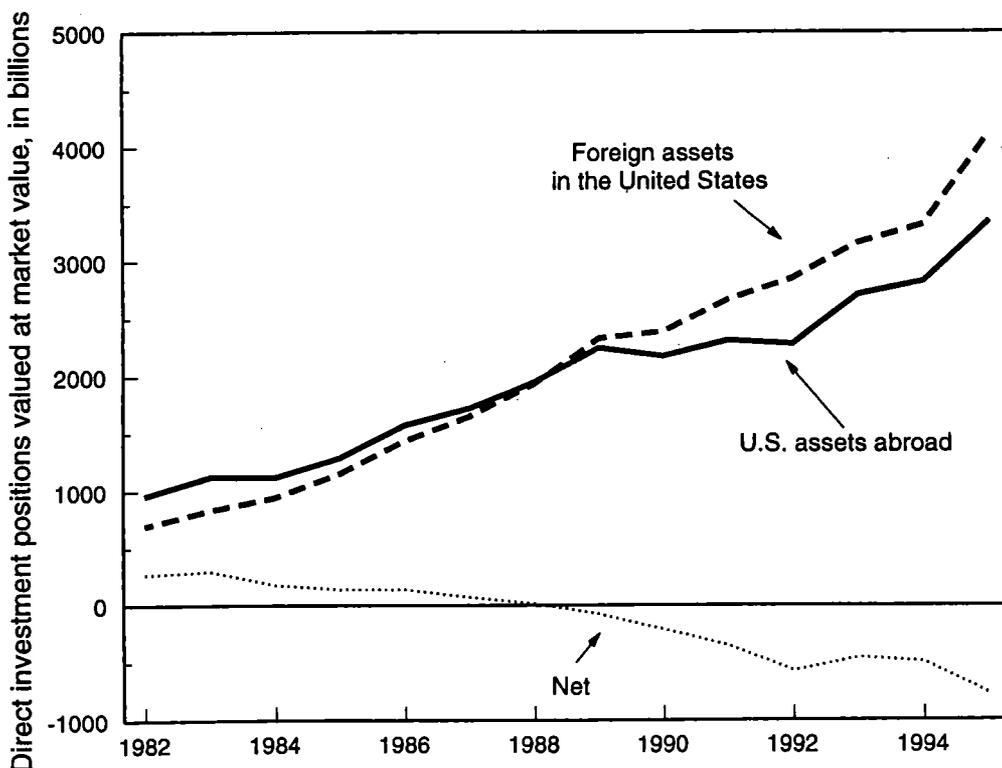
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

July 12, 1996

CHART OF THE WEEK

U.S. International Investment



In 1995, the value of foreign investments in the United States exceeded the value of U.S. investments in other countries by \$774 billion, up from \$492 billion in 1994. About 40 percent of the change represents a net capital inflow to the United States during 1995; most of the rest reflects the relative strength of U.S. financial markets (the value of foreign-owned assets held in the United States appreciated faster than the value of U.S.-owned assets held abroad). Persistent balance of payments deficits since the early 1980s have moved the United States from net creditor to net debtor status. Net inflows of foreign capital have offset low national saving and helped finance domestic investment, but they have also increased our foreign debt.

175813

96 JUL 15 12:14
51 707 99
The following information was received from the Bureau of Economic Warfare, Department of War, Washington, D. C., on July 15, 1946:

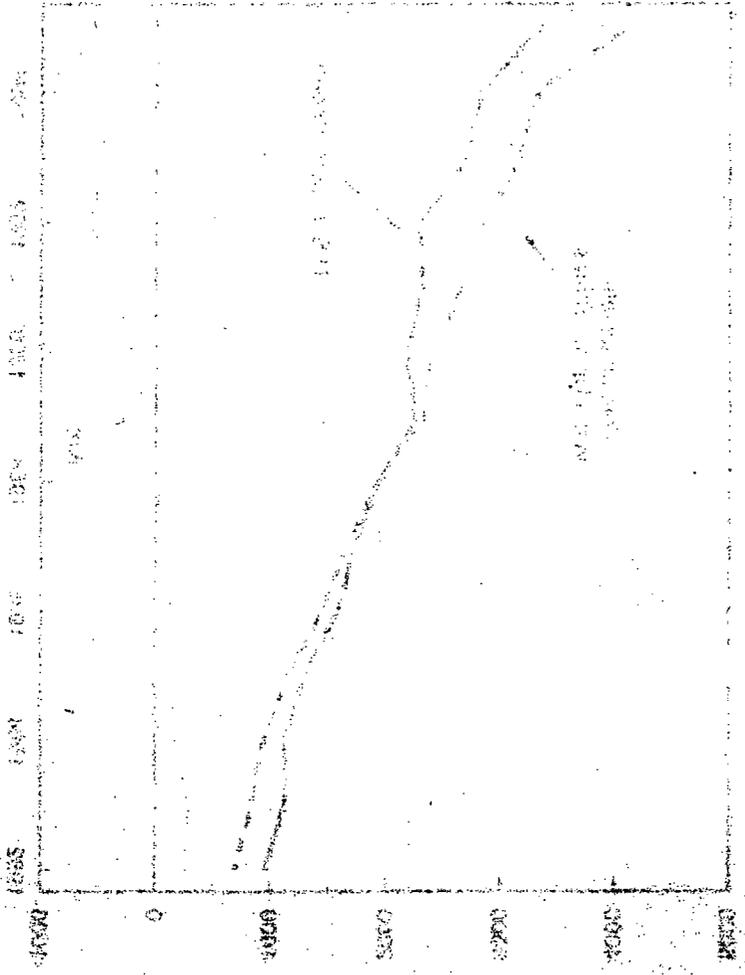


FIGURE 1000 - THE VALUE OF THE DOLLAR

CHANGE OF THE VALUE

1946 JUL 15

RESERVE BANK OF INDIA AND THE GOVERNMENT OF INDIA
BANKING AND FINANCE DEPARTMENT

OFFICIAL RECORD OF THE PROCEEDINGS OF THE
COMMISSION OF ENQUIRY INTO THE
MONEY MARKET

1946 JUL 15 12:14

RESERVE BANK OF INDIA

CONTENTS

CURRENT DEVELOPMENT

Whither Gas Prices? 1

TREND

Gauging the Importance of Transatlantic Trade 2

SPECIAL ANALYSES

More Bad News for Smokers? 3

Economics Tackles Sociology: A Provocative
Explanation for Out-of-Wedlock Births 4

ARTICLE

Supply Side Economics Scorecard, Part 2: Work 6

DEPARTMENTS

Business, Consumer, and Regional Roundup 8

International Roundup 9

Releases 10

U.S. Economic Statistics 11

Financial and International Statistics 12



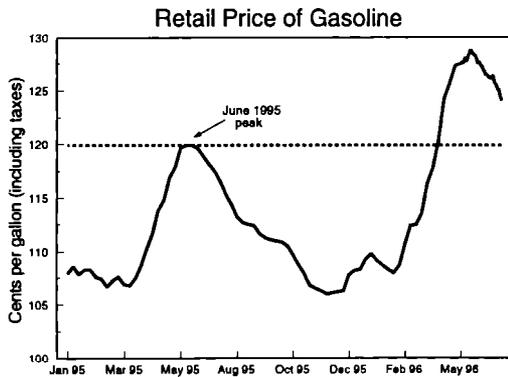
CURRENT DEVELOPMENT

Whither Gas Prices?

Retail gasoline prices have been falling for the last 8 weeks, with the national average price for unleaded regular gasoline (now about \$1.23 per gallon) down 6 cents per gallon from its mid-May peak. This decline exceeds the 4.3 cents per gallon temporary rollback in the motor fuels excise tax

proposed by Congressional Republicans.

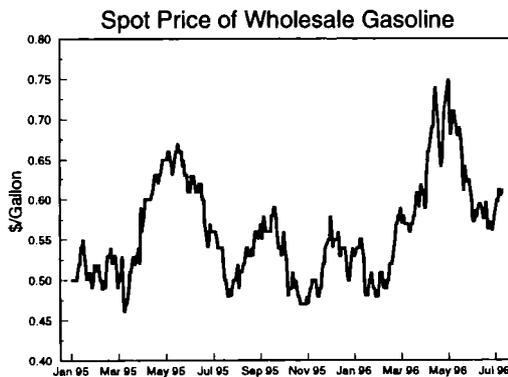
Adjusted for inflation, the current price is about the same as last June's \$1.20 per gallon price.



California retail prices have fallen even more dramatically, from \$1.54 per gallon in mid-May to \$1.44 per gallon.

Some analysts have noted that wholesale gasoline prices have started to creep up, after dropping sharply over the last 2 months. This is not unexpected, given the seasonal nature of gasoline demand and refinery operations. However, wholesale price changes generally affect retail prices only with a lag, and the

increases to date are modest enough to have little or no effect on average retail prices in the coming months.



Finally, crude oil prices have increased somewhat in the last couple of weeks. This may reflect ongoing concerns about when Iraqi oil will enter world markets under the oil-for-food agreement negotiated between Iraq and the United Nations. Futures prices indicate that market participants expect

crude oil prices to decline modestly by the end of the year.

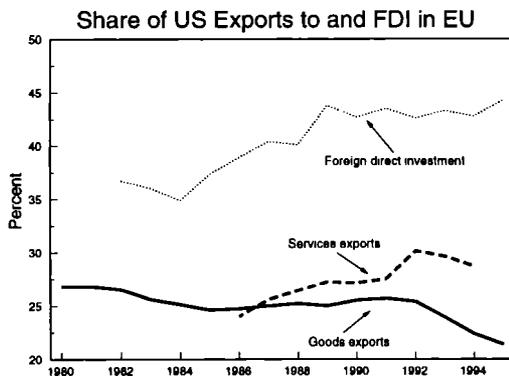
TREND

Gauging the Importance of Transatlantic Trade

At the Madrid Summit last December, the United States and the European Union agreed to expand trade ties through the Transatlantic Marketplace initiative. The Europeans had pushed for such an initiative in part because of their worry that U.S. interest in trade had shifted to other regions. And indeed the share of U.S. merchandise trade with Europe has fallen and been eclipsed by our Pacific trade.

But the transatlantic relationship remains very important for two reasons. First, Europe is far more significant to us in services trade and foreign investment than in merchandise trade. Second, the U.S.-EU relationship is critical in guiding the evolution of the world trading system.

Trends in transatlantic trade. Merchandise trade between the United States and the 15 countries that today make up the European Union fell from 9.7 percent of all world trade in 1960 to 5.2 percent last year. The European Union received 21 percent of U.S. exports last year, down from 32 percent in 1960.



But in the more rapidly growing area of services trade, the European Union now receives nearly 30 percent of our exports (see chart). Also, 44 percent of U.S. foreign direct investment (FDI) is in Europe.

Shaping the trading system. As barriers to trade in goods have been reduced, interest has shifted to services,

investment, and regulatory issues, where the likely gains from international agreements are high. But the issues are often more complex than reducing tariffs, and negotiations have been confined to smaller groups of more advanced economies. U.S.-EU discussions have been a critical part of our investment negotiations in the OECD, and attention to regulatory issues is a key part of our Transatlantic Marketplace initiative.

As the two largest actors in the world trading system, the United States and the European Union have an influence that exceeds their economic weight. U.S.-EU agreement has been crucial in reaching closure in recent multilateral negotiations. Moreover, the spread of regional trade arrangements with the United States and the European Union at their core has increased the importance of transatlantic agreement, because it will largely determine whether regional trade initiatives ultimately lead to global liberalization instead of competing regional blocs.

SPECIAL ANALYSIS

More Bad News for Smokers?

The adverse health effects of cigarettes are widely recognized. But smoking may hurt economic activity as well. For example, a recent study found that the average smoker earns about 15 percent less than the average nonsmoker.

Isolating the effects of smoking. This 15 percent wage penalty may overstate the impact of smoking on wages to the extent that smokers and nonsmokers have other differences that are also related to earnings. For example, the average smoker has more than a full year less education than the average nonsmoker.

The study uses three techniques to control for differences between smokers and nonsmokers that may coincidentally lead to a wage gap. First, statistical methods are employed that hold constant observable characteristics such as education, race, gender, and achievement test scores. Second, wages of sibling pairs who differ in their smoking status are compared. Third, the wages of individual smokers who quit smoking over time are compared before and after they quit. All three approaches yield similar answers: smoking leads to a 4 to 8 percent reduction in wages, or roughly \$1,000 per year for a typical full-time, full-year worker.

Interpretation. Why do smokers earn less? One possible explanation is that the act of smoking makes workers less productive and hence less valuable to employers. For example, workers in manual occupations, such as typists, may have to stop working to smoke. Work rules that make smokers leave their work place to smoke in a lounge or outside the building could also reduce smokers' productivity. Absentee rates for smokers may be higher as a result of more frequent illnesses such as upper respiratory infections.

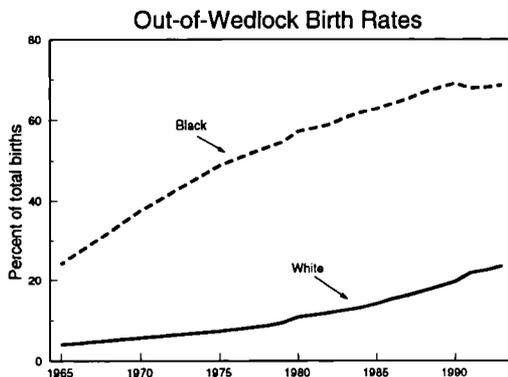
Other possible explanations for the wage penalty associated with smoking do not depend on productivity differences. Smokers may be discriminated against by employers or coworkers leading to lower wages. For example, the Oklahoma City fire department maintains a "non-smokers only" hiring policy that has been upheld by the courts. Smokers may also raise employers' health plan costs and firms may offset these additional costs by paying smokers lower wages.

Conclusion. Although efforts to sort out the various reasons why smokers earn less than nonsmokers have not been conclusive, one thing is clear: the act of smoking represents not only a health risk but also an economic risk for the smoker. To the extent that lower wages associated with smoking reflect lower productivity, reducing smoking could also contribute to raising national income.

SPECIAL ANALYSIS

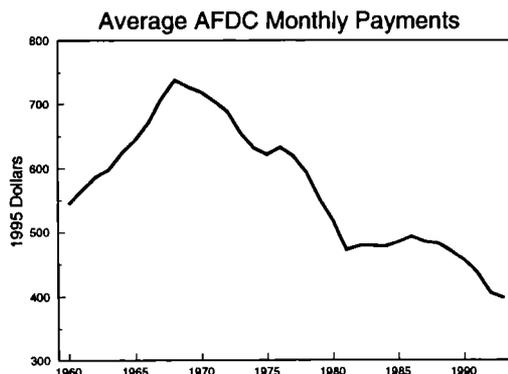
Economics Tackles Sociology: A Provocative Explanation for Soaring Out-of-Wedlock Births

The rate of out-of-wedlock childbearing has soared in the past 30 years. For black women, births to unmarried mothers have risen from 24 percent of total births in 1965 to 69 percent today; for white women, the rise is from 3 percent to 23 percent (see upper chart). This phenomenon poses a challenge to policymakers because children reared in single-parent households are more likely to be poor and experience a multitude of problems.



Some sociologists and social commentators have offered popular explanations for rising out-of-wedlock births—but these don't fit the facts all that well. Into the breach comes a study by a group of highly respected theoretical economists with a surprising explanation—the birth control pill and legalized abortion.

Existing hypotheses don't work. Two prominent theories for the rise in the out-of-wedlock birth rate are incentives created by the welfare system (notably, Charles Murray) and the unavailability of eligible employed black males (notably, William Julius Wilson). However, the data are not fully consistent with either of these theories. While the out-of-wedlock birth rate has risen continuously since 1970, the



real value of AFDC has declined (see lower chart) and the expansion in the number of families receiving benefits has slowed. In addition, most economists who have examined the relationship between AFDC benefits and out-of-wedlock births across states find that variations in benefits can explain only a small fraction of the rise in births to unmarried women.

The explanation based on a shortage of eligible men also fails the empirical test. First, marriage rates have fallen for employed as well as unemployed black males. Second, cross-sectional studies have concluded that at most 20 percent of the decline in marriage rates for blacks can be explained by decreasing employment.

A counter-intuitive alternative. The new theoretical study suggests a link between advances in birth control and legalized abortion, on the one hand, and the rise in the out-of-wedlock birth rate, on the other. The critical link is a decline in what the

authors term “shot-gun” marriages. The study hypothesizes that before options to prevent or terminate pregnancy were readily available, if a man got a woman pregnant he felt an obligation to marry her. Once the pill and legal abortions were available, he could view the decision to have the child as a choice by the woman and therefore relieving him of his responsibility for the child.

While it is clear that this is not the full story—for example, why do unmarried women keep having kids?—it fits the data better than other popular hypotheses. Before the pill and abortion, roughly 60 percent of white births conceived out of wedlock were followed by marriage before the child’s birth; by the early 1980s, that fraction had declined to roughly 40 percent. For blacks, the comparable numbers are 25 percent before 1970 and 11 percent in the early 1980s. If the pre-pill/pre-abortion shot-gun marriage rates had persisted, most of the increase in out-of-wedlock births would not have occurred.

The study does not come to conclusions about how the out-of-wedlock birth rate might be reduced. However, it does suggest which policies are likely to have little effect. Since sexual customs have changed and the social stigma associated with out-of-wedlock childbearing has declined, eliminating the pill and abortion at this stage could not quickly reverse the trend in out-of-wedlock births. Moreover, in contrast to the conclusions arrived at by Murray and others, this provocative theory suggests that a cut in welfare benefits would do little to reduce out-of-wedlock births. But efforts to make fathers contribute to the support of their kids should serve to offset some of the changes in behavior that have occurred following the introduction of the pill and legalized abortion.

An Even More Provocative Explanation

An alternative model offered by the authors is based on the observation that in the old days a woman would extract a promise of marriage in the event that premarital sex resulted in pregnancy. After abortion and the pill, those women who planned to avail themselves of these options no longer had any need to extract such a promise. Other women, who did not want to use the pill or have an abortion and would have liked a promise of marriage, lost their power because men could find women who did not require such a commitment. In this model, the shift in bargaining power produces a decline in shot-gun marriages and a rise in out-of-wedlock births.

ARTICLE

Supply-Side Economics Scorecard, Part 2: Work

Supply-side arguments in support of tax cuts assert that people's economic behavior is highly responsive to changes in the after-tax return to work, saving, and investment. Evidence on saving provides little support for this assertion (see Weekly Economic Briefing, June 28, 1996). This article looks at evidence on labor supply.

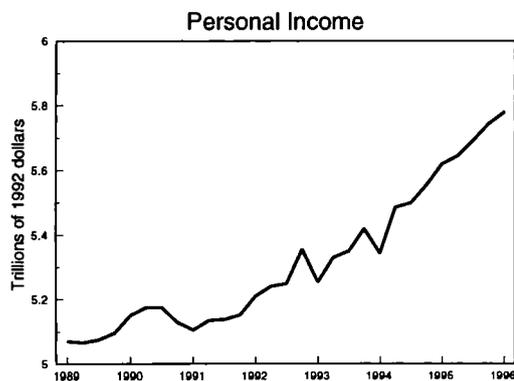
The theory. Economic theory suggests that a tax cut raising the after-tax pay rate has two effects that move in opposite directions. On the one hand, it increases the reward to entering the paid labor force or working more hours. At a higher after-tax wage, workers have a greater incentive to substitute paid labor for leisure or other non-market activities. On the other hand, such a tax cut reduces the need to work as much. A higher after-tax hourly wage allows people to work fewer hours yet earn more income. As with saving, economic theory cannot say which effect will be larger, so empirical analysis is required.

A review of the evidence. Economists note that different types of people have different responses to changes in their after-tax wage rates, depending in large part on their attachment to the labor force.

- Prime-age men have very strong attachment to the paid labor force, and researchers have found virtually no response in their labor supply to changes in after-tax wages.
- For women, research suggests that a 10 percent increase in after-tax wages can be expected to raise the labor supply by about 2 percent, both through increased labor force participation and more hours worked by those already in the labor force.
- Other groups accounting for a smaller fraction of the labor force might have larger responses. For example, a recent study finds a substantial effect among wives of men with very high earnings, suggesting that family income differences matter for secondary earners.

Other kinds of responses. Workers with some control over their compensation package may respond to a tax cut by taking more of their compensation in cash wages and less in tax-favored fringe benefits (such as health insurance, pension benefits, employer-provided life insurance, and employer-provided education benefits). This would increase the income tax base, leading to higher revenues, even without any change in participation or hours worked. Some critics of the 1993 tax changes have asserted that the rise in tax rates for the highest-income portion of the population led many high-income taxpayers to shift compensation away from wages, lowering the revenue received from these taxpayers.

Similarly, workers with some control over when they receive compensation might be able to shift taxable wages into years when they face relatively low marginal tax rates. For instance, many high-income individuals (like investment bankers, law partners, and professional athletes) appear to have anticipated the 1993 marginal tax rate increases and moved as much as \$20 billion of wage and bonus payments into 1992. Personal income jumped above trend in the fourth quarter of 1992 and fell



back again in the first quarter of 1993 (see chart). A similar phenomenon appears to have occurred at the end of 1993 in anticipation of the removal of the cap on the Medicare component of the payroll tax.

Conclusion. Tax cuts that raise the after-tax return to working can produce a modest increase in aggregate labor supply, but not one large enough to "pay for itself." The evidence suggests that a

15-percent across-the-board income tax cut would increase aggregate labor supply by 1 percent or less. The annual income and payroll taxes collected on a 1 percent increase in labor income would amount to roughly \$10 billion, hardly enough to offset the \$90 billion or so lost by the 15 percent tax cut. Although the labor supply effect would be small, larger responses might be observed in the timing and composition of labor income for workers with some control over their compensation packages.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Job Growth Concentrated in High-Wage Occupations. Employment growth over the years 1989-95 has occurred primarily in high-wage job categories, according to a report just released by the Bureau of Labor Statistics (BLS). Although it covers a slightly different time period, this study confirms the findings of an earlier Council of Economic Advisers report. This is not surprising since most of the 1989-95 job growth occurred after 1992. Both studies show that although job growth has been somewhat concentrated in industries like services and retail trade that pay relatively low average wages, job growth within these industries has taken place in occupations that pay relatively high wages.

Hispanic Immigrants Falling Farther Behind in Education and Earnings. Two recent RAND studies have identified a worrisome trend in the educational and income attainments of Hispanic immigrants. The good news is that enrollment rates in primary and middle schools are about the same for Hispanic immigrant children as they are for native-born Americans. The bad news is that Hispanic immigrants are less likely to attend high school than natives, not so much because more drop out, but because many Mexican newcomers never "drop in." According to one study, a typical 15-year-old Mexican immigrant will already have been out of school for 2 years when he or she arrives in the United States and will be less likely to enroll in school here, whether by choice, inability to catch up with others this age, or economic necessity. As a result, in 1990 only 74 percent of Mexican immigrants aged 15-17 were in school, compared to about 95 percent for natives and other immigrant groups. Unlike other immigrant groups, who either arrive with earnings power similar to natives or who catch up within 7 to 10 years, Mexicans begin with very low starting wages and fail to narrow the gap.

Chrysler Puts Breaks on Natural-Gas Vehicle Production. Chrysler, one of the leading producers of clean-burning natural-gas-powered cars and trucks, announced this week that it is suspending production because of high costs and low demand. The company reports that the main problem is the cost of the fuel tanks, which consist of up to five cylinders holding natural gas. Conventional gasoline tanks cost less than \$50 to install, while the natural-gas tanks cost \$3,000 to \$5,000. Demand, too, has been disappointing. Although Chrysler has sold 4,000 of the autos (mostly to commercial fleets, not retail customers) since 1992 when it first began production, it sold fewer than 700 of the 1996 models. The remaining Big Three producer, Ford, plans to keep building natural-gas cars because it foresees long-term potential and good prospects for sales abroad. Chrysler said it expects to return to the market when profit opportunities look better.

INTERNATIONAL ROUNDUP

World Bank Highlights Varied Performance in Transition Economies. In its 1996 World Development Report, the World Bank assesses the performance of countries making the transition from communism to the market. The report finds that the determined, consistent reformers, like Estonia and Poland, are performing better than the stop-and-go reformers, like Belarus and Ukraine, which have yet to return to growth. Reducing government deficits has required dismantling much of the broadly-based system of social transfers that prevailed in Central and Eastern Europe and the Newly Independent States of the former Soviet Union. At the same time, retargeting previously universal social assistance programs to focus on relieving poverty and addressing the effects of reforms on the very young and the elderly have been identified as especially supportive of the transition process.

United Nations Warns of Link Between Global Warming and Human Health. In a report released this week, the health, meteorological and environmental agencies of the United Nations find that climate change would increase the incidence of public health problems. The most direct health effects would be those caused by heat waves, storms and floods. According to computer simulations, the share of the world's population exposed to the potential transmission of malaria could increase in a hundred years' time from the current 45 percent to around 60 percent. Increases in the incidence of other infectious diseases such as cholera, and other water-related and food-related infections, could also occur. Climate change is also predicted to result in several thousand extra heat-related deaths each year in many major cities by 2050.

Japan's Parliament Reluctantly Approves *Jusen* Rescue Plan. Late last month the Japanese government pushed through a controversial legislative package aimed at restructuring its financial sector. The package was controversial because it authorized the use of \$7 billion in government funds to liquidate the seven bankrupt *jusen*, or housing loan companies. To counter public outrage over the allotment of taxpayers' money for a *jusen* liquidation, the government has asked private banks who founded the *jusen* and the Bank of Japan to set aside at least \$7 billion in a separate investment fund, whose revenue will be used to repay taxpayer funds. Both sets of financial institutions appear reluctant to do so. In addition, the government has asked banks to write off roughly \$60 billion of the \$130 billion in outstanding loans made by the seven bankrupt *jusen*. Critics have charged that the whole financial rescue package does not adequately address the problem.

RELEASES THIS WEEK

Retail Sales

****Embargoed until 8:30 a.m., Friday, July 12, 1996****

Advance estimates show that retail sales decreased 0.2 percent in June following an increase of 0.8 percent in May. Excluding sales in the automotive group, retail sales increased 0.1 percent in June following an increase of 0.5 percent in May.

Producer Price Index

****Embargoed until 8:30 a.m., Friday, July 12, 1996****

The producer price index for finished goods increased 0.2 percent in June. Excluding food and energy, producer prices also increased 0.2 percent.

MAJOR RELEASES NEXT WEEK

Consumer Prices (Tuesday)

Industrial Production and Capacity Utilization (Tuesday)

Housing Starts (Wednesday)

U.S. International Trade in Goods and Services (Thursday)

U.S. ECONOMIC STATISTICS

	1970– 1993	1995	1995:3	1995:4	1996:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.3	3.6	0.5	2.2
GDP chain-type price index	5.3	2.6	2.2	2.2	2.4
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	0.3	1.7	-0.8	2.1
Real compensation per hour:					
Using CPI	0.6	1.0	2.1	0.5	0.1
Using NFB deflator	1.3	1.7	2.0	2.0	2.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.4
Residential investment	4.5	4.0	4.0	4.0	4.1
Exports	8.2	11.1	11.1	11.3	11.2
Imports	9.2	12.5	12.5	12.4	12.5
Personal saving	5.1	3.3	3.2	3.6	3.4
Federal surplus	-2.7	-2.2	-2.2	-2.1	-2.1
<hr/>					
	1970– 1993	1995	April 1996	May 1996	June 1996
Unemployment Rate	6.7**	5.6**	5.4	5.6	5.3
Payroll employment (thousands)					
increase per month			191	365	239
increase since Jan. 1993					10008
Inflation (percent per period)					
CPI	5.8	2.5	0.4	0.3	N.A.
PPI-Finished goods	5.0	2.3	0.4	-0.1	0.2

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

New or revised data in **boldface**.

PPI data **embargoed until 8:30 a.m., Friday, July 12, 1996.**

FINANCIAL STATISTICS

	1994	1995	May 1996	June 1996	July 11, 1996
Dow-Jones Industrial Average	3794	4494	5617	5672	5521
Interest Rates					
3-month T-bill	4.25	5.49	5.02	5.09	5.12
10-year T-bond	7.09	6.57	6.74	6.91	6.90
Mortgage rate, 30-year fixed	8.35	7.95	8.07	8.32	8.42
Prime rate	7.15	8.83	8.25	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	Current level July 11, 1996	Percent Change from Week ago	Year ago
Deutschemark-Dollar	1.521	-0.7	+8.4
Yen-Dollar	110.2	-0.7	+26.0
Multilateral \$ (Mar. 1973=100)	87.98	-0.5	+6.7

International Comparisons	Real GDP growth (last 4 quarters)	Unemployment rate	CPI inflation (last 12 months)
United States	1.7 (Q1)	5.3 (Jun)	2.9 (May)
Canada	0.6 (Q1)	9.4 (May)	1.5 (May)
Japan	5.5 (Q1)	3.6 (May)	0.3 (May)
France	1.0 (Q1)	12.6 (Mar)	2.4 (May)
Germany	0.4 (Q1)	7.1 (May)	1.5 (May)
Italy	1.6 (Q1)	12.5 (Apr)	4.3 (May)
United Kingdom	1.9 (Q1)	8.3 (May)	2.2 (May)