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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 entire report: CEA/Podesta
pg 7 Top: HRC/Reed/Podesta
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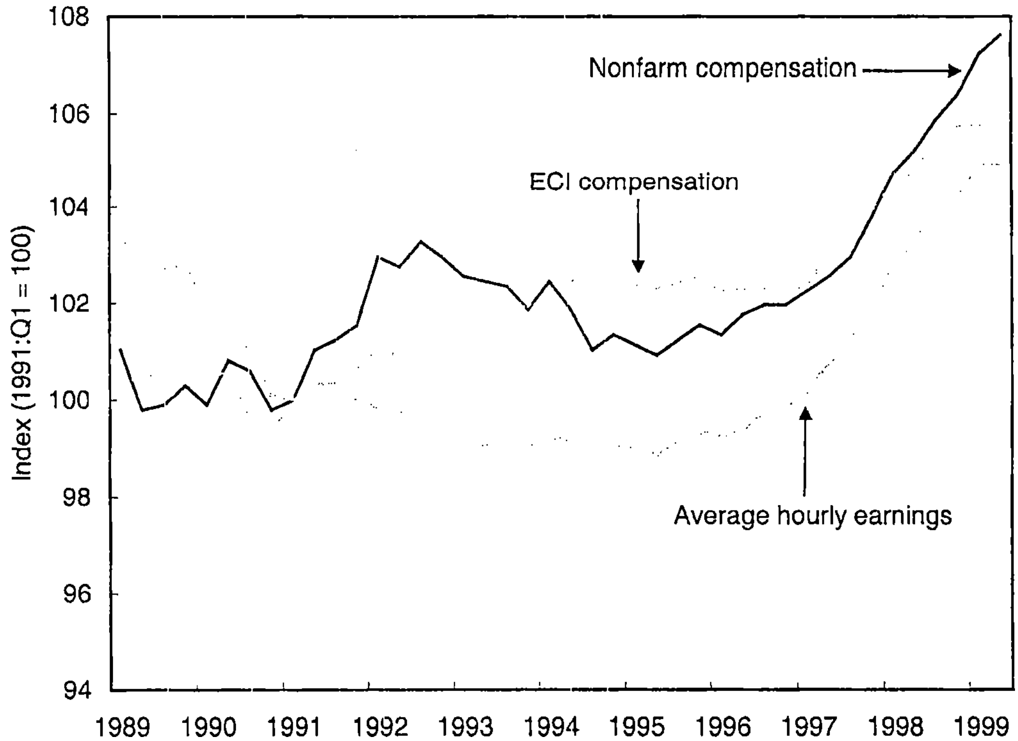
August 6, 1999

CHART OF THE WEEK

Three Measures of Real Wages



Over the past few years, both average hourly earnings of production or non-supervisory workers (reflecting the wages of about 80 percent of private employment) and nonfarm compensation (which includes non-wage benefits) have increased faster than compensation measured by the employment cost index (ECI). The ECI is based on a constant mix of industries and occupations, while the other two reflect changes in the composition of jobs. Thus, the job-mix seems to be shifting toward higher-paying jobs.

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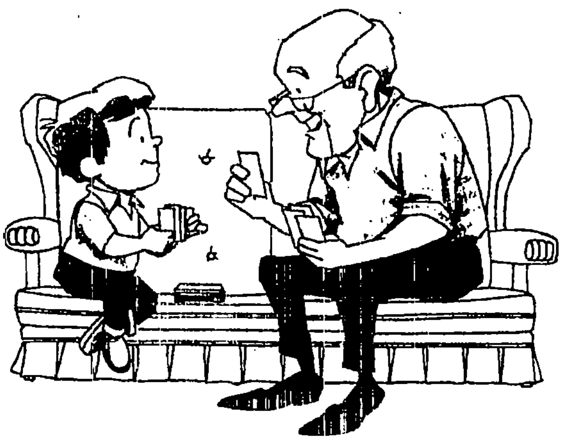


"Some would say I'm retired, but I like to think of myself as a stay-at-home grandfather."

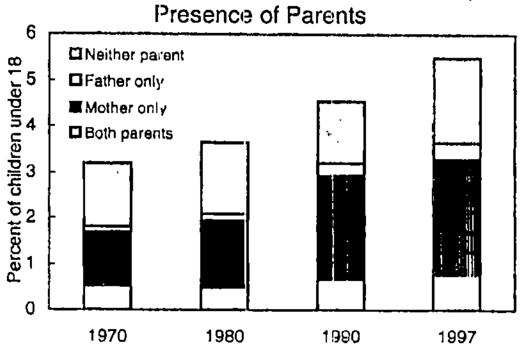
SPECIAL ANALYSIS

Balancing Work and Childcare: the Role of Grandparents

The past decade has witnessed a marked increase in grandparent involvement in raising grandchildren. An examination of this involvement over the last three decades suggests that intergenerational ties may have strengthened. Recent studies have examined the reasons for these trends and their implications for labor force participation.

Trends in living arrangements of grandchildren. Over the last three decades, the share of children under age 18 living in a household headed by a grandparent has risen by more than 70 percent to 5.5 percent of all children in 1997 (see chart). The driving force in the 1990s has been an increase in the share of children living in households with neither parent present. Between 1980 and 1990, by contrast, the increase came from children living in grandparent-headed households with just a single parent present. The share in such households with the father as the single parent present, while small, continued to grow in the 1990s.

Grandchildren in Grandparents' Homes by Presence of Parents



Interactions between caregiving and labor force participation. The rise in female labor force participation has created a greater overall demand for grandchild care that extends beyond living arrangements. Among grandparents caring for grandchildren in a non-custodial relationship, the employment of the grandchild's parents and the desire to help the grandchild's parents financially are commonly cited reasons for providing care. In addition, in a sample of working mothers aged 19-26 with a youngest child under 5 years old, nearly 25 percent utilized grandmothers as the principal caregiver. Evidence from another study suggests an intergenerational labor-force tradeoff: among women aged 51-54, 73 percent of those without grandchildren were engaged in some form of work, whereas among those caring for grandchildren, only 54 percent were in the labor force.

Impact on work and families. Evidence that caregiving is associated with labor market outcomes such as reduced hours, increased absenteeism, and missed promotions has largely been based on studies of caregiving for elderly parents or infirm spouses rather than grandchildren. While some of the effects found in this research may be present in grandchild care, other factors could be at work as well. First, grandchild care may be seen more as an opportunity than as a burden and therefore contribute to the attractiveness of retiring. Second, because employer-provided health insurance rarely covers grandchildren, the need to keep working to maintain dependents' health insurance is not the issue it could be in other caregiving situations. Third, grandchild care may allow a middle-generation individual to participate in the labor force or obtain schooling, both of which may have positive long-term effects.

Conclusion. Grandparents face an intergenerational tradeoff between work and caregiving. Choosing to provide care for a grandchild is associated with decreased labor force attachment of the grandparent but increased attachment of the middle-generation child. By participating in grandchild care, retirement-age individuals play a key role in shaping the economic well-being of future generations.

SPECIAL ANALYSIS

Farm Program Costs and the WTO

Until recently, the United States was comfortably below the limits set on trade-distorting farm supports in the Uruguay Round Agreement on Agriculture. But the recent rapid increase in farm program payments is eroding that cushion.

Trends. After record-low expenditures in 1996, Federal spending on agriculture through the Commodity Credit Corporation (CCC) is rising. The CCC's net expenditures were $4.6 billion in fiscal year 1996, $7.3 billion in 1997, and $10.1 billion in 1998. CCC net expenditures could reach $18.4 billion in 1999. USDA projects a subsequent decline, but such projections are highly uncertain. A share of these annual expenditures, along with certain other forms of support, count against the United States' Uruguay Round commitment.

Uruguay Round commitments. In total, 28 WTO members, including most major agricultural producers and traders, have made binding commitments to reduce so-called "amber box" trade-distorting supports (such as market price support payments, storage payments, marketing loans, and some forms of crop insurance) according to fixed schedules. Like other developed countries, the United States agreed to a 20 percent cut over 6 years from a 1986-88 base level. For the United States, the base level "aggregate measure of support" (AMS), which quantifies amber-box programs, was $23.9 billion. For 1999, the U.S. ceiling is $19.9 billion.

U.S. performance. For 1995-1997, the U.S. AMS averaged about $6 billion, primarily for dairy, sugar, and peanut supports. In 1998, however, low market prices resulted in higher commodity payments, especially for corn, wheat, and soy. The projected AMS for 1998 is $9 to $10 billion and that for 1999 will likely be higher, even before including amounts from any currently proposed emergency farm aid legislation. Moreover, the totals for 1995-1998 do not include non-product specific support, such as crop and revenue insurance, because such support did not meet a *de minimus* threshold of 5 percent of the total value of agricultural production.

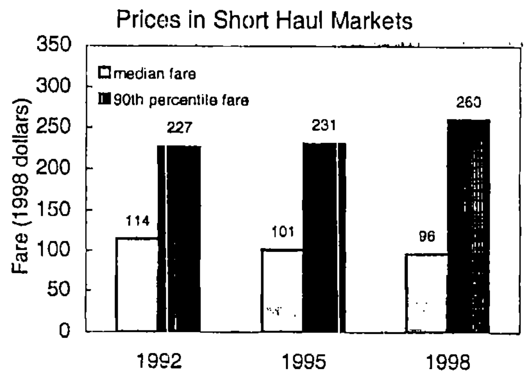
The non-product-specific "wild card." Non-product-specific support could play an important role in determining whether foreigners might allege that the United States has not met its WTO commitments. If such support exceeds the 5 percent threshold of roughly $10 billion, the entire category would then be included in the AMS. Among other factors, the amount of crop and revenue insurance subsidies, which already account for a substantial share of all U.S. non-product-specific support, could be critical.

Conclusion. If farm program spending continues to rise, the distinction between amber-box support and so-called "green box" non- and minimally trade distorting support (such as research and extension, pest and disease control, domestic food aid, and income support payments that are de-coupled from prices or production) will become even more important. There are no WTO limits or reduction commitments if support qualifies for the green box. To the extent that spending on any new farm programs or policy instruments, including government-backed risk management tools, can be tailored to meet green-box provisions, the United States stands less chance of being accused of overshooting its AMS ceiling.

ARTICLE

Why Are Fares Flying Higher for Business Travelers?

Are recent trends in the airline industry threatening the lower fares and increased service that followed airline deregulation in 1978? A recent report from the National Research Council's Transportation Research Board finds evidence that leisure travelers continue to benefit from low fares, while prices paid by business travelers have been rising.



Increased fare dispersion. This finding of divergent trends for different groups of consumers comes from an analysis of trends in fare dispersion. The Board presents evidence that on short haul routes (those less than 750 miles), the median fare (in 1998 dollars) declined from \$114 in 1992 to \$96 in 1998 (see chart). By contrast, the fare at the 90th percentile rose from \$227 to \$260 over the same period.

Airline pricing. The disparity in fares paid for essentially the same seat on any given flight reflects the widespread use of fare restrictions by airlines to separate travelers into different groups based upon their willingness to pay for tickets. Leisure travelers who plan ahead can generally get significant discounts off of the fares charged to last-minute business customers. Although this practice seems "unfair" to those paying higher fares for potentially the same seat, the cost to the airline of providing a seat to a business traveler is higher. An airline that wants to serve business customers must reserve some capacity for the last-minute business traveler, and that capacity sometimes goes unused even though it could have been sold earlier to another leisure traveler.

Competing explanations. Two different explanations have been suggested to explain why airline fares for business travelers are increasing even though fares for leisure travelers appear to be declining.

- Tighter capacity. One explanation for the increase in fares to business travelers is that airline capacity has become tighter as the economy continues to expand. As capacity becomes scarce, holding additional capacity empty for business travelers becomes increasingly costly, and business fares would be expected to increase. The Board found some evidence for this view, noting that between 1992 and 1997, the load factor for domestic carriers (a mileage-weighted ratio of passengers to seats) has risen from about 63 percent to about 69 percent.

- Insufficient competition. An alternative explanation for the increases in business fares relative to leisure fares is insufficient competition from low-cost carriers. For example, the Board found that in markets where Southwest Airlines is present, its fares are substantially below those of the incumbent airlines for both leisure and business travelers. In addition, unlike the incumbent airlines, Southwest has not sharply increased the disparity between its business and leisure fares over the 1992-1998 period.

Implications. In light of these findings, the Transportation Research Board has recommended that increasing efforts be made to ensure that airport facilities remain readily available to new entrants like Southwest and other low-cost carriers. For example, the Board notes that administrative limits (such as slot controls designed to control congestion) have also blocked new airlines from particular airports. The report recommends that airlines pay a fee to fly into congested airports during peak hours to control congestion rather than using slot mechanisms to control the number of arrivals and departures. The report also finds that limited access to airport gates can be an obstacle to entry, and that Federal rules and airport funding should be designed to encourage sufficient gate supply for new competitors.

Conclusion. While airlines may have legitimate business reasons for charging different prices for seats on the same flight, they may also be able to exploit such opportunities when competition is limited. Appropriate policies to allow competitive entry can help ensure that the benefits of airline deregulation are achieved.

THE PRESIDENT HAS SEEN
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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

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Career Academies Show Positive Results. Career academies represent one of the fastest-growing high school reforms in the nation, combining elements of the school restructuring and school-to-career movements. Organized as schools-within-schools, career academies use classroom- and work-based learning centered around an occupational area to help students gain the necessary skills to make successful transitions to post-secondary education, employment, or a combination of the two. A recent study of 10 career academies in disadvantaged areas around the country found that each was successful in establishing partnerships with a group of local employers and developing a range of career-awareness and work-based learning activities. The percentage of academy students participating in career-awareness activities outside of the school was more than twice as high as that of the control group. The gains in in-school career activities, employment during high school, and participation in high-quality work-based learning were more modest. The study found that increasing the quantity and quality of academy activities remains a challenge, as does fuller integration of classroom- and work-based learning.

cc: BR Reed/ Sec. Riley / Podesta

A New Explanation for the Education Wage Differential among Men. Common explanations for the widening wage differential between college- and high-school-educated workers include increased technology in the workplace, immigration, and decreased unionization. But a new study finds a different explanation, at least for men, in the forces of supply and demand. In particular, since the mid-1970s male college graduates have benefited from relative pay gains because younger generations of men have been attending college at smaller rates than their predecessors, thereby decreasing the supply of college-educated workers in each successive cohort. Thus, steadily increasing demand for college-educated workers would lead to an increased relative wage. According to the study, this relative earnings gain for younger college-educated male workers is the reason for the rise in the wage differential between college- and high school-educated workers from 25 percent in the mid-1970s to 40 percent in 1998. While the earnings differential has remained the same for older workers over the past 25 years, it has doubled for younger workers.

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Online Shopping Rate Shows First Decline. The latest findings from an ongoing survey of Internet users found that the percentage who made purchases online decreased for the first time last quarter. Between April 1998 and March 1999 the percentage of users who made online purchases grew from 47 to 74 percent, but it then dropped slightly to 71 percent last quarter. These findings are based on a sample drawn from a private firm's database of Internet users who have volunteered to participate in online research. Of course, continued growth in Internet usage should keep the volume of Internet purchases rising even if the percentage stops growing. The survey found that three-quarters of buyers are making multiple purchases, and 95 percent of online shoppers say that they plan to buy the same amount or even more online in the future. CDs, books, computer software and hardware, and airline tickets were the top items purchased.

INTERNATIONAL ROUNDUP

OECD Releases Latest Science and Technology Indicators. After a decline in R&D spending in OECD countries in the early 1990s, investments have recovered since 1995, according to the OECD's semi-annual *Main Science and Technology Indicators.* This reversal is apparent in the United States, where the rate of growth of gross domestic expenditure on R&D jumped to 6.5 percent in 1998 (it was –0.2 percent as recently as 1994). The ratio of R&D expenditures to GDP increased from 2.5 percent in 1994 to 2.8 percent in 1998—well above the 1.8 percent average rate for the EU. Although the public sector is the primary source of R&D financing in smaller OECD countries such as Portugal and Iceland, the business sector is the main source in R&D-intensive countries like the United States, Japan, Korea, and Sweden. Business R&D funding represents more than 65 percent of total R&D expenditures for these countries. OECD governments have shown an increased interest in health- and environment-related R&D programs, as the share of spending for such programs in total government budgets grew steadily in the 1990s.

World Carbon Emissions Fall in 1998. Last year, global emissions of carbon from the combustion of fossil fuels declined for the first time since 1993, according to a report by the Worldwatch Institute. The report estimates that emissions fell 0.5 percent to 6.32 billion tons. The decline occurred even though the world economy grew 2.5 percent in 1998. During the last 2 years, the amount of carbon emissions required to produce $1,000 of income fell by 6.4 percent. The report cites improved energy efficiency, falling coal use, and the growth of information technology and service industries that are not major energy users as explanations for the decline in carbon emissions. The de-linking of economic growth and carbon emissions was particularly dramatic in China, which grew 7.2 percent in 1998 while experiencing a 3.7 percent drop in emissions. In the United States, emissions rose only 0.4 percent in 1998, while the economy grew 3.9 percent. However, U.S. emissions in 1998 were still 10.3 percent above 1990 levels, compared with the Kyoto Protocol target for greenhouse gas emissions of 7 percent below the 1990 level by 2010.

Mexico Imposes Tariffs on U.S. Beef. In response to an anti-dumping petition against beef imports from the United States, the Mexican Secretary of Commerce and Industry announced this week that it would place tariffs of up to 215 percent on various U.S. beef products. This ruling comes following a preliminary determination by Mexico that U.S. producers were sending beef products across the border at artificially low prices and causing injury to the Mexican beef industry. Tariff amounts range from 5 percent to 215 percent across different product categories. Within these categories, however, four specific U.S. corporations were granted substantially lower tariffs than other U.S. producers. Mexico is the second largest importer of American beef, accounting for roughly 15 percent of the total value of U.S. beef exports in the January-April 1999 period.

RELEASES THIS WEEK

Employment and Unemployment

****Embargoed until 8:30 a.m., Friday, August 6, 1999****

In July, the unemployment rate was unchanged from June at 4.3 percent. Nonfarm payroll employment rose by 310,000.

Productivity

Nonfarm business productivity rose 1.3 percent at an annual rate in the second quarter. Manufacturing productivity rose 4.9 percent.

Leading Indicators

The composite index of leading indicators increased 0.3 percent in June, following an increase of 0.3 percent in May.

NAPM Report on Business

The Purchasing Managers' Index declined 3.6 percentage points to 53.4 percent in July. (A reading above 50 percent indicates that the manufacturing economy is generally expanding.)

MAJOR RELEASES NEXT WEEK

Retail Sales (Thursday)
Producer Prices (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1998	1998:4	1999:1	1999:2
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	4.3	6.0	4.3	2.3
GDP chain-type price index	5.4	0.9	0.8	1.6	1.6
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	**2.6**	**4.1**	**3.6**	**1.3**
Real compensation per hour:					
Using CPI	0.6	**2.5**	**2.0**	**2.9**	**1.5**
Using NFB deflator	1.3	**3.7**	**3.4**	**3.0**	**3.3**
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	11.0	11.0	11.0	11.2
Residential investment	4.5	4.3	4.5	4.6	4.6
Exports	8.2	11.3	11.3	10.9	10.9
Imports	9.2	13.0	13.1	13.2	13.5
Personal saving	5.2	0.3	−0.0	−0.5	−0.8
Federal surplus	-2.7	0.9	0.8	1.4	N.A.

	1970-1993	1998	May 1999	June 1999	July 1999
Unemployment Rate (percent)	6.7**	4.5**	4.2	4.3	**4.3**
Payroll employment (thousands)					
increase per month			**28**	**273**	**310**
increase since Jan. 1993					**19243**
Inflation (percent per period)					
CPI	5.8	1.6	0.0	0.0	N.A.
PPI-Finished goods	5.0	0.0	0.2	−0.1	N.A.

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

New or revised data in **boldface**.
Employment and unemployment data **embargoed until 8:30 a.m., Friday, August 6, 1999.**

FINANCIAL STATISTICS

	1997	1998	June 1999	July 1999	August 5, 1999
Dow-Jones Industrial Average	7441	8626	10704	11052	10794
Interest Rates (percent per annum)					
3-month T-bill	5.06	4.78	4.57	4.55	4.61
10-year T-bond	6.35	5.26	5.90	5.79	5.88
Mortgage rate, 30-year fixed	7.60	6.94	7.55	7.63	7.89
Prime rate	8.44	8.35	7.75	8.00	8.00

INTERNATIONAL STATISTICS

Exchange Rates	**Current level August 5, 1999**	**Percent Change from**	
		Week ago	**Year ago**
Euro (in U.S. dollars)	1.079	0.7	N.A.
Yen (per U.S. dollar)	114.0	-1.1	-21.1
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	94.28	-0.8	-5.9

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	4.1 (Q2)	**4.3** (Jul)	2.0 (Jun)
Canada	3.2 (Q1)	8.1 (May)	1.5 (Jun)
Japan	0.1 (Q1)	4.7 (May)	0.0 (Jun)
France	2.3 (Q1)	11.4 (Apr)	0.5 (Apr)
Germany	0.8 (Q1)	7.2 (May)[2/]	0.4 (Jun)
Italy	0.9 (Q1)	12.1 (Apr)	1.4 (Jun)
United Kingdom	1.2 (Q2)	6.2 (Mar)	1.4 (Jun)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, August 6, 1999.**

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

2/ Rate for former West Germany. Using OECD standardized unemployment data, the unemployment rate for unified Germany for May was 9.1 percent.