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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

April 14, 2000

copied
Bailey
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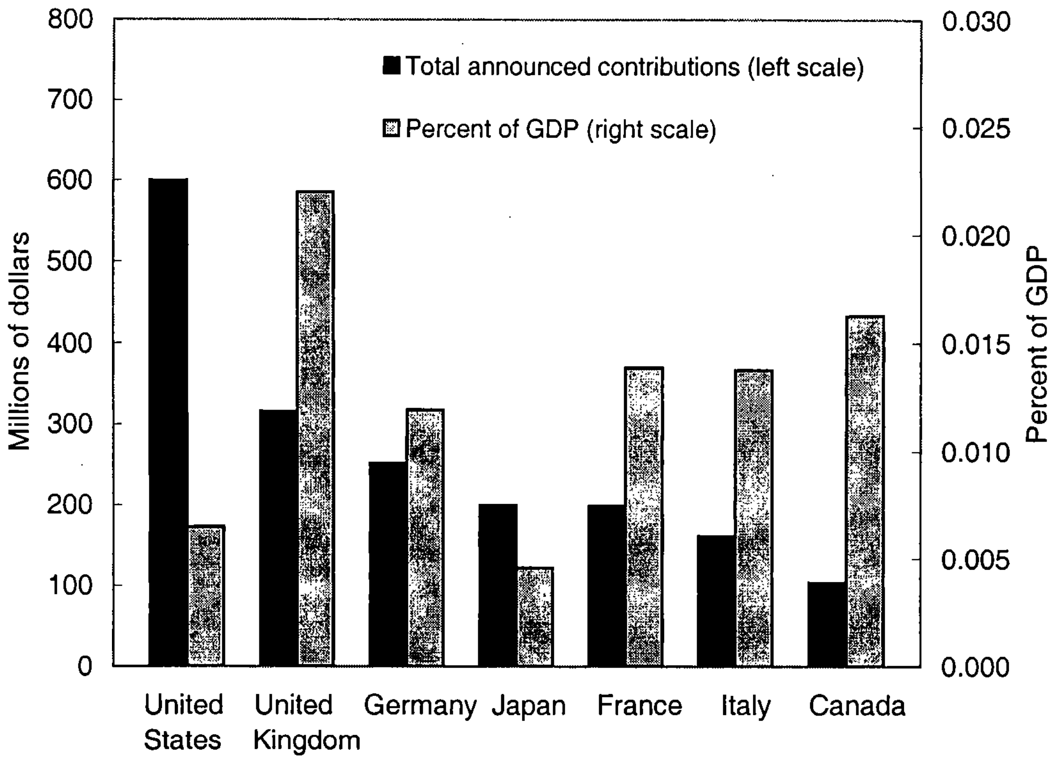
Podesta

CHART OF THE WEEK

G-7 Announced Contributions to HIPC Trust Fund



The Heavily Indebted Poor Countries (HIPC) Trust Fund is seeking $3.6 billion of external support for regional multinational development banks that are unable to pay their share of the $28 billion enhanced HIPC Initiative. Thus far $329 million in contributions have been received from 16 countries, and 26 countries have pledged almost $2 billion more. The largest donors to the Trust Fund are the G-7 and the Netherlands. Some countries have conditioned pledges or additional new funding on a U.S. contribution.

4-14-00

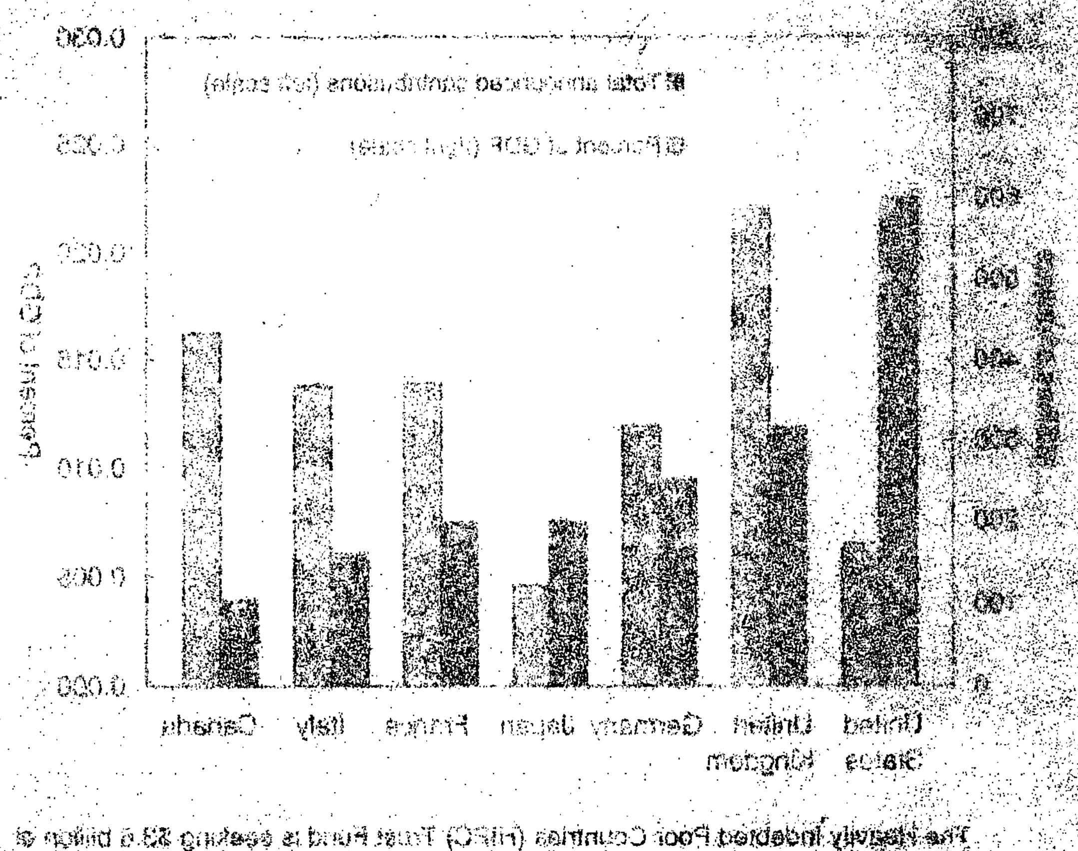
Weekly Economic Briefing of the President of the United States

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

April 14, 2000

Chart of the Week

G-7 Announced Contributions to HIPC Trust Fund



The Heavily Indebted Poor Countries (HIPC) Trust Fund is seeking $3.6 billion of external support for regional multilateral development banks that are unable to pay their share of the $28 billion enhanced HIPC Initiative. Thus far $129 million in contributions have been received from 16 countries, and 26 countries have pledged almost $2 billion more. The largest donors to the Trust Fund are the G-7 and the Netherlands. Some countries have conditioned pledges or additional funding on a U.S. contribution.

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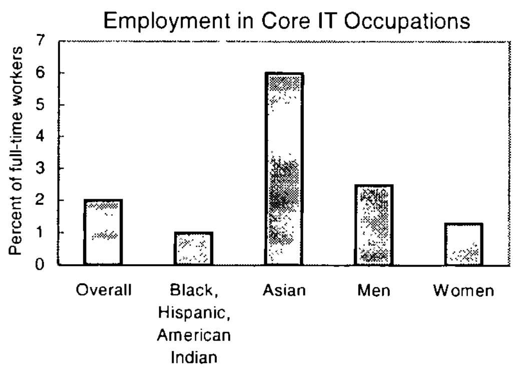
CONTENTS

MY CENSUS FORM?... IT DIDN'T SAY ANYTHING ABOUT WINNING MILLIONS OF DOLLARS SO I THREW IT OUT.
CENSUS 2000

SPECIAL ANALYSIS

The Digital Divide in IT Employment

Employment in core information technology (IT) jobs such as computer systems analysts, computer scientists, and computer programmers has doubled over the last decade, reaching 2.2 million workers in 1999. The CEA estimates that median wages are about 80 percent higher than in the non-IT sector. An expanding and well-paid field, IT can offer substantial opportunity for those with appropriate skills. But employment patterns by race/ethnicity and gender reveal another facet of the digital divide.



Minority and female representation. CEA calculations find that employment in core IT occupations represents about 2 percent of the full-time workforce (see chart). For whites, the percentage is slightly higher, while only about 1 percent of African Americans and less than 1 percent of Hispanics hold core IT jobs. Women are only half as likely as men to be employed in these occupations.

Educational attainment. Two-thirds of full-time core IT workers have a bachelor's degree or more, hence differences in educational attainment might help explain these differences in IT employment. For African Americans with a bachelor's degree who work full time, there is no employment gap: the proportion of such workers in core IT occupations is about 4¼ percent, the same as that of comparable non-Hispanic whites. In contrast, even among those with BA/BS degrees, Asians are still about three times as likely to work in IT as non-Hispanic whites. Women with a bachelor's degree are employed at half the rate as men with bachelor's degrees. Evidence for Hispanics is mixed, but having a bachelor's degree does not appear to eliminate the IT employment gap.

What's your major? About two-thirds of core IT workers with a bachelor's degree have a science, mathematics, or engineering background. Thus, the choice of major is a key determinant of subsequent IT employment. Data from a National Science Foundation survey of college graduates indicate that African Americans and Hispanics earn degrees in science and engineering at the same rate as whites. Thus, their low representation in IT employment would seem to reflect lower rates of college attendance, not choice of major once in college. The situation is different for women, who earn more than half of all bachelor's degrees but are much less likely than men to graduate with science or engineering degrees.

Earnings. While much of the under-representation of minorities in core IT jobs appears to be related to educational differences, the variation in earnings in core

IT jobs is substantial even when education is held constant. Although small sample sizes in the available data make it difficult to reach definitive conclusions, African Americans with a bachelor's degree or greater appear to earn substantially less in IT jobs than other racial groups with the same educational attainment. Women, for whom there are more data, earn about 15 percent less than men in core IT occupations after controlling for education. These gender earnings differences exist even though age and hours of work are similar for men and women in core-IT jobs. Race and gender pay gaps may arise because women and African Americans are disproportionately represented in lower-paying sub-occupations.

Conclusion. Employment and earnings differences by race and gender in IT jobs reveal yet another dimension of the digital divide. While educational attainment and choice of major are key factors in explaining these differences, they do not tell the full story.

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SPECIAL ANALYSIS

Guns and Teen Violence

Recent trends showing declining teen suicide and homicide victimization are encouraging. Nevertheless, the harmful effects of the proliferation of guns in the mid-1980s remain evident. New evidence focused on African American teenagers is instructive.

The crack connection. Crack cocaine first arrived in large cities like Miami, Los Angeles, and New York around 1983. A large number of youth, especially African American teenagers, were drawn into the crack trade. After remaining fairly constant from 1975 through 1984, drug arrest rates among non-white juveniles more than doubled between 1985 and 1989. Social scientists have hypothesized that a distressing by-product of the rapid growth in crack trade was the dissemination of guns into the hands of many American teenagers, African Americans in particular. The nucleus of the diffusion process was gun possession by teens directly involved in drug markets, but possession became far broader as other teens acquired guns in reaction to this trend—for perceived self-protection or as a status symbol. (One 1993 study conducted in center-city schools found that 22 percent of students possessed guns, with 68 percent citing protection as the main reason.)

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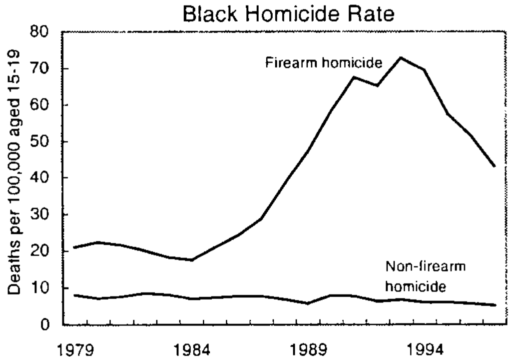
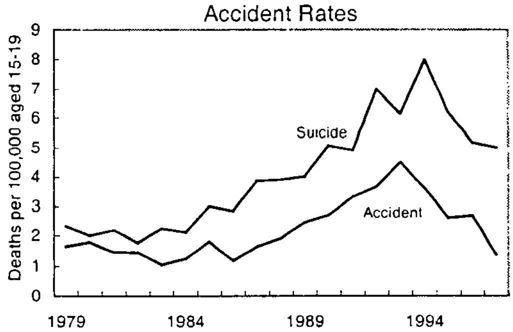
Gun homicide. The apparent increase in teenage gun possession in the mid-1980s has been suggested as a factor in several trends, the most disturbing of which is the rapid rise in deaths among African American teens due to gun homicide (see upper chart). There are two competing explanations for the sharp rise in homicides. First, the rise in gun possession may have directly increased the lethality of confrontations among teens. Second, there may simply have been an increase in teens' inclination toward violence. Indeed both factors may have been at work, but if the latter explanation were the predominant influence, we might expect to observe an increase in both gun and non-gun homicide. In fact, non-gun homicide victimization among African American teens remained roughly constant through the 1980s.

Black Homicide Rate



Black Firearm-Related Suicide and Accident Rates



Fatal gun accidents. The underlying premise that more guns were finding their way into the hands of African American teens in the mid-1980s is

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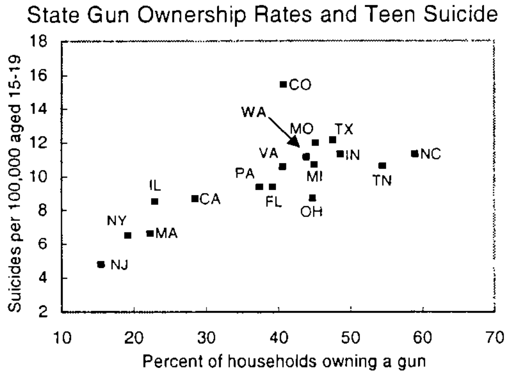
supported by trends in deaths from gun accidents. The rate of fatal gun accidents was more than four times as high in 1993 as in 1983 (see lower chart on previous page).

Gun suicide. The proliferation of guns also likely played a key role in suicides among African American teens. While the rate of gun suicides increased rapidly in the mid-1980s, the non-gun suicide rate remained fairly constant for this group. The idea that gun access directly leads to increasing suicide is also supported by a cross-state analysis of suicide rates among teens generally. In states where more households have guns, overall teen suicide rates are much higher (see chart, which presents statistics for the 17 large states for which there are data). Importantly, this relationship holds because gun-related teenage suicide is higher in states with high gun ownership; non-gun teen suicides are not correlated with gun ownership. (These results are consistent with an earlier *Weekly Economic Briefing* analysis of overall suicide rates and guns.)



Some good news in the 1990s. The spread of guns among center-city youth in the mid-1980s was likely responsible for the disastrous increases in homicide, suicide and accidental death among African American teens. By the mid-1990s gun-related death rates were declining for this demographic group, perhaps because of a decline in the levels of gun possession by more recent cohorts of teenagers. However, gun homicide and suicide rates remain relatively high, presumably because a large stock of guns remains accessible to youth. Policies that are effective in reducing the gun possession by teens should reinforce the recent downward trend in teen mortality.

Gun Briefing
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ARTICLE

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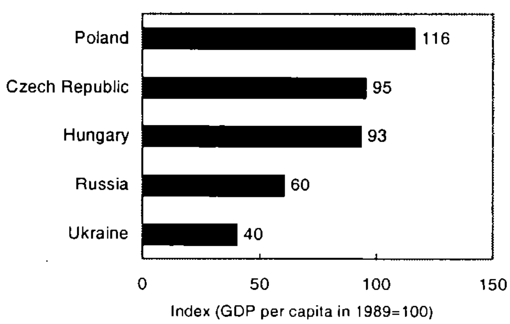
Poland: Lessons in Transition

Poland has been the most successful of the transition economies in moving from a centrally planned to a market economy. A recent study by a large consulting firm explores the reasons why and points to the economic challenge Poland still faces.

Adjustment and recovery after 1989. Real GDP per capita in Poland dropped by about 18 percent between 1989 and 1991 following the implementation of market reforms. Communist-era products and services found it difficult to pass the market test following liberalization, and government spending fell. Between 1992 and 1998, however, Polish real GDP per capita grew at around 6 percent per year, reaching a level 16 percent higher than in 1989. This success contrasts sharply with other major transition economies, which have not yet regained their 1989 level (see chart).

GDP per Capita in Transition Economies in 1998



Productivity and employment. Poland's turnaround mostly reflects solid productivity growth of 5 percent per year in real GDP per worker between 1992 and 1998. Employment, by contrast, has yet to recover fully from a sharp setback following liberalization. Though down from its peak of 16 percent, the unemployment rate remains above 10 percent.

Growth in productivity resulted from increasing utilization of the industrial assets that continued to operate and from investment in new, more productive facilities. Foreign direct investment accounted for more than half of all private investment in 1998 and was crucial in boosting private investment from 5 percent of GDP in 1995 to 13 percent in 1998. Even this investment level is relatively modest, however, and the overall level of productivity remains low by advanced country standards (29 percent of the U.S. level in 1998).

Sound macroeconomic policies. In contrast to other transition economies, Poland followed sound monetary and fiscal policies. Following a surge after liberalization, inflation has gradually been brought under 10 percent. The public sector budget deficit was kept below 4 percent of GDP, which, along with strong economic growth and debt relief granted by foreign creditors, has cut the public debt-to-GDP ratio to around 50 percent.

Generally successful privatization. Poland established a successful framework for privatization and the process has been virtually completed in much of the economy. In the privatized markets, prices have been freed and competitive conditions apply. Poland has encouraged foreign investment and allowed foreign companies to purchase "key" domestic companies. This has brought in hard currency and both management and technological expertise. The successful, broad-based privatization, together with the sound macroeconomic policies, the study argues, account for Poland's strong performance relative to other transition economies.

In some sectors privatization has been delayed. In mining and steel, the government is trying to reach agreement on, and then put in place, specific restructuring programs, before selling the assets. In banking, telecom, utilities and airlines, privatization is waiting for the appropriate regulatory structures to be established. Other sectors of the economy have been privatized, but with "no layoff" provisions in force for a period of time.

Labor markets. Wage-setting institutions have evolved since 1990. Under the new system, wage bargaining takes place mainly at the firm level, under a nationwide ceiling for increases set by a commission made up of state, employer, and union representatives. Minimum wage rates are negotiated by the same three groups, and the study expressed concern that rising real minimum wages together with large payroll taxes could soon have adverse employment effects in sectors such as retail and apparel, although this has not been a serious problem so far.

Promoting competition. Although the government opened markets in much of the economy, the study identifies areas where more needs to be done. For example, 40 percent of urban dwellings are sheltered from market forces by direct and indirect subsidies. These are not allocated according to need or income and their effect is to discourage new residential housing construction. In addition, the structure of property taxes discourages local governments and private landowners from making land available for either residential or commercial development.

The challenge. Poland illustrates the dilemma faced by transition economies. Rapid liberalization, privatization, and the opening of international trade encourage efficiency, but they also force large structural adjustments. Productivity rises rapidly, but employment falls or rises only slowly, leading to unemployment or rising employment in subsistence activities. In 1997, for example, Poland had between 44 and 50 percent of its workforce (depending on data source) in agriculture and manufacturing, with a high potential for job loss in the unproductive parts of these sectors. Slowing the pace of adjustment can make sense, in order to allow new jobs to grow fast enough to absorb the job losers. But this also slows the creation of a full market economy.

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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Working Together: Welfare and Workforce Development. A recent study by the Urban Institute finds that establishing closer links between welfare offices and workforce development systems (including JTPA/WIA agencies, community colleges, one-stop career centers, and private employment and training contractors) can benefit TANF recipients. Coordination and integration among these groups, it finds, allows for referrals to a wider range of services, improved case management, and the convenience of co-location. The study notes that creative approaches to assisting TANF recipients find work, including these partnerships, are being spawned by a greater availability of resources per client, the need to address multiple barriers faced by those still on the rolls, and the rapid expansion of computer technology and computer-based labor market information. In light of the tight labor market, which is increasing employer involvement, the study concludes that the current environment offers unprecedented opportunities for partnerships to help welfare clients move successfully to work.

Teacher Quality and Students' Future Earnings. Longitudinal data on the impact of teacher quality on subsequent earnings of students is relatively limited. But a new study has combined data from a Wisconsin survey of 1957 high school graduates with information about the characteristics of the school districts from which they graduated. In particular, the study found a significant relationship between a set of education and experience characteristics of high school teachers and the future earnings of male graduates 17 years later, when they were in their mid-30s. Using average teacher salary as a proxy for these characteristics and controlling for family education and income, the study found that a 1 percent increase in average teacher salary increased students' future earnings by 0.3 percent. This is over 80 times larger than the estimated effect of a comparable increase in family income.

Why Do Larger Banks Charge Higher ATM Fees? Surveys have shown that large banks charge higher ATM fees than do smaller banks. To some extent at least, these fees reflect the higher costs to the bank and greater convenience to their customers of deploying a larger network of ATMs, according to a recent study. In particular, the study found that differences in the fees that banks charge their own customers for using another bank's ATM are due to differences in cost and convenience. However, larger banks charge non-customers more for using their machines, even after controlling for the greater convenience and higher costs associated with deploying and operating a larger number of machines. This fee structure gives customers an incentive to open accounts at larger institutions with more ATMs, putting competitive pressure on middle-tier banks operating in the same market. Despite the evidence that large banks impose higher fees, the study questions the economic wisdom of bans on ATM charges. Customers can, and for the most part do, avoid paying ATM surcharges by finding machines that do not impose them; bans would limit consumer choice and probably slow the deployment of ATMs; and banks would have to find other, possibly more inefficient ways of financing ATM services.

INTERNATIONAL ROUNDUP

IMF Expects Higher World Economic Growth. World output will grow 4.2 percent in 2000, according to the IMF's latest *World Economic Outlook*. This is 0.8 percentage point higher than in the IMF's October forecast and would mark a significant increase over growth rates of 3.3 percent in 1999 and 2.5 percent in 1998. Despite its optimistic forecast, the IMF points to a number of imbalances that have been building in the world economy, noting that the large U.S. current account deficit combined with persistent surpluses in Japan and the euro area are unlikely to be sustainable. The IMF argues that the large capital inflows into the United States have made the dollar too strong relative to the euro given medium-term fundamentals, which creates the risk of disruptive exchange rate adjustments if market sentiment changes suddenly. The report cautions that world stock markets may be overvalued, due in part to the ample growth in liquidity over the last few years needed to overcome the effects of financial crises in Asia, Russia, and Latin America. In order to secure a transition to a sustainable pattern of global growth, the IMF stresses the need to contain excess demand pressures in the United States while promoting durable expansions in the EU and Japan.

Japan Extends Debt Relief Program. This week, Japan became the latest G-7 country to cancel all non-official development assistance (non-ODA) loans for eligible heavily indebted poor countries (HIPCs). Japan also pledged an additional $190 million to the HIPC Trust Fund (on top of the $10 million it has already contributed) and promised further provision of bilateral grant assistance. As part of the 1999 enhanced HIPC Initiative, the G-7 agreed to forgive 100 percent of ODA debts and 90 percent or more of their non-ODA claims, which include trade insurance and loans made by export-import banks, for eligible HIPC countries. Several G-7 countries have since expressed their intention to waive 100 percent of their non-ODA claims as well. As Japan is one of the largest HIPC donors, with over $10 billion of loans to the 40 HIPC countries, some see Japan's decision to follow suit as critical to the success of the HIPC Initiative.

FDI Promotes Growth in China. A recent OECD study finds that differences in rates of foreign direct investment (FDI) are particularly important in explaining differences in growth rates across Chinese provinces since the mid-1980s. These results help explain why coastal regions of China have grown much faster than central or western regions, since they have attracted the lion's share of foreign investment (88 percent in 1996, for example). The positive effect of FDI on growth is stronger when the average level of schooling of the population is higher, suggesting that FDI and education are complementary. Interestingly, the study finds that differences in export growth have little *direct* impact on differences in output growth rates. Instead, openness to trade contributes to output growth primarily by helping attract FDI. In addition, FDI is higher in provinces with high incomes, high growth rates, and better transportation infrastructure. The study recommends that to achieve more balanced growth, China should encourage FDI in the inland provinces by introducing preferential measures to attract FDI, providing better infrastructure, and improving education.

RELEASES THIS WEEK

Industrial Production and Capacity Utilization
****Embargoed until 9:15 a.m., Friday, April 14, 2000****

The Federal Reserve's index of industrial production increased 0.3 percent in March. Capacity utilization fell 0.1 percentage point to 81.4 percent.

Consumer Price Index
****Embargoed until 8:30 a.m., Friday, April 14, 2000****

The consumer price index rose 0.7 percent in March. Excluding food and energy, consumer prices rose 0.4 percent.

Producer Price Index

The producer price index for finished goods rose 1.0 percent in March. Excluding food and energy, producer prices rose 0.1 percent.

Retail Sales

Advance estimates show that retail sales increased 0.4 percent in March following an increase of 1.8 percent in February. Excluding sales in the automotive group, retail sales rose 1.4 percent following an increase of 1.8 percent.

MAJOR RELEASES NEXT WEEK

Housing Starts (Tuesday)
U.S. International Trade in Goods and Services (Wednesday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	1999:2	1999:3	1999:4
Percent growth (annual rate)					
Real GDP (chain-type)	2.9	4.6	1.9	5.7	7.3
GDP chain-type price index	5.2	1.6	1.3	1.1	2.0
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	3.6	0.6	5.0	6.4
Real compensation per hour:					
Using CPI	1.0	1.7	1.4	2.1	0.8
Using NFB deflator	1.5	3.0	2.9	4.0	2.1
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.6	12.6	12.7	12.5
Residential investment	4.5	4.4	4.5	4.4	4.4
Exports	8.2	10.8	10.7	10.8	10.9
Imports	9.2	13.5	13.4	13.8	14.0
Personal saving	6.6	1.7	1.8	1.5	1.3
Federal surplus	-2.8	1.2	1.3	1.4	1.2

	1970-1993	1999	January 2000	February 2000	March 2000
Unemployment Rate (percent)	6.7**	4.2**	4.0	4.1	4.1
Payroll employment (thousands)					
increase per month			394	7	416
increase since Jan. 1993					21213
Inflation (percent per period)					
CPI	5.8	2.7	0.2	0.5	**0.7**
PPI-Finished goods	5.0	3.0	0.0	1.0	**1.0**

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

New or revised data in **boldface**.
CPI data **embargoed until 8:30 a.m., Friday, April 14, 2000**.

FINANCIAL STATISTICS

	1998	1999	February 2000	March 2000	April 13, 2000
Dow-Jones Industrial Average	8626	10465	10542	10483	10924
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.55	5.69	5.65
10-year T-bond	5.26	5.65	6.52	6.26	5.94
Mortgage rate, 30-year fixed	6.94	7.43	8.33	8.24	8.12
Prime rate	8.35	8.00	8.73	8.83	9.00

INTERNATIONAL STATISTICS

Exchange Rates	Current level April 13, 2000	Percent Change from Week ago	Percent Change from Year ago
Euro (in U.S. dollars)	0.952	-0.6	-11.7
Yen (per U.S. dollar)	105.8	0.9	-11.9
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	95.99	0.7	1.0

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	4.6 (Q4)	4.1 (Mar)	**3.7** (Mar)
Canada	4.7 (Q4)	6.8 (Feb)	2.7 (Feb)
Japan	0.0 (Q4)	4.9 (Feb)	-0.6 (Feb)
France	3.2 (Q4)	10.0 (Feb)	1.4 (Feb)
Germany	2.3 (Q4)	8.6 (Feb)	1.8 (Feb)
Italy	2.1 (Q4)	11.2 (Jan) [2/]	2.4 (Feb)
United Kingdom	3.0 (Q4)	5.9 (Dec)	2.3 (Feb)

U.S. CPI data **embargoed until 8:30 a.m., Friday, April 14, 2000.**

1/ For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics, except as noted in footnote 2.

2/ Data from OECD standardized unemployment rates.