FOIA Number: 2018-0275-F

FOIA MARKER

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

Collection/Record Group:	Clinton Presidential Records
Subgroup/Office of Origin:	Records Management - SUBJECT FILE
Series/Staff Member:	Subject Files
Subseries:	

OA/ID Number:	21904
Scan ID:	405958
Document Number:	

Folder Title:
BE

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

THE PRESIDENT HAS SEEN
01-17-00

405958

00 JAN 14

BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

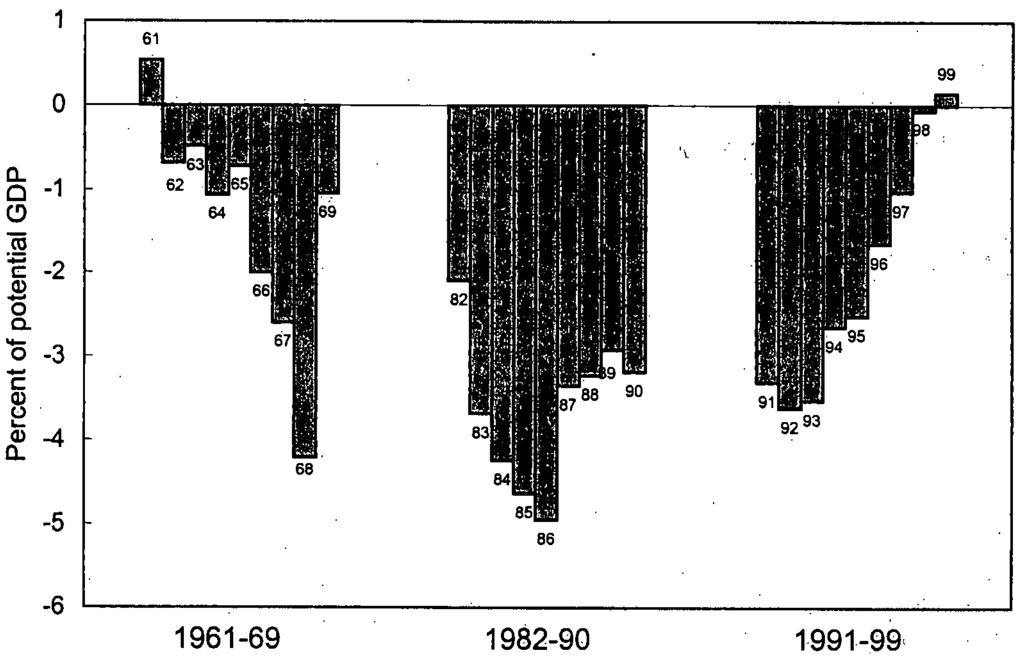
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

January 14, 2000

Copied
Baily
Podesta
(Cover + page one only)

CHART OF THE WEEK

The Structural Budget Balance in Three Long Expansions



The structural budget balance has moved steadily from deficit to surplus over the last 7 years of this expansion. In the 1961-69 expansion, by contrast, the structural deficit grew larger until the 1968 tax increase; and the structural deficit was large throughout the 1982-90 expansion. (The structural deficit reflects adjustments to the deficit to remove cyclical and temporary factors; it measures what the deficit would be at full employment.) A Special Analysis in this Briefing discusses other indicators of fiscal restraint in this expansion.

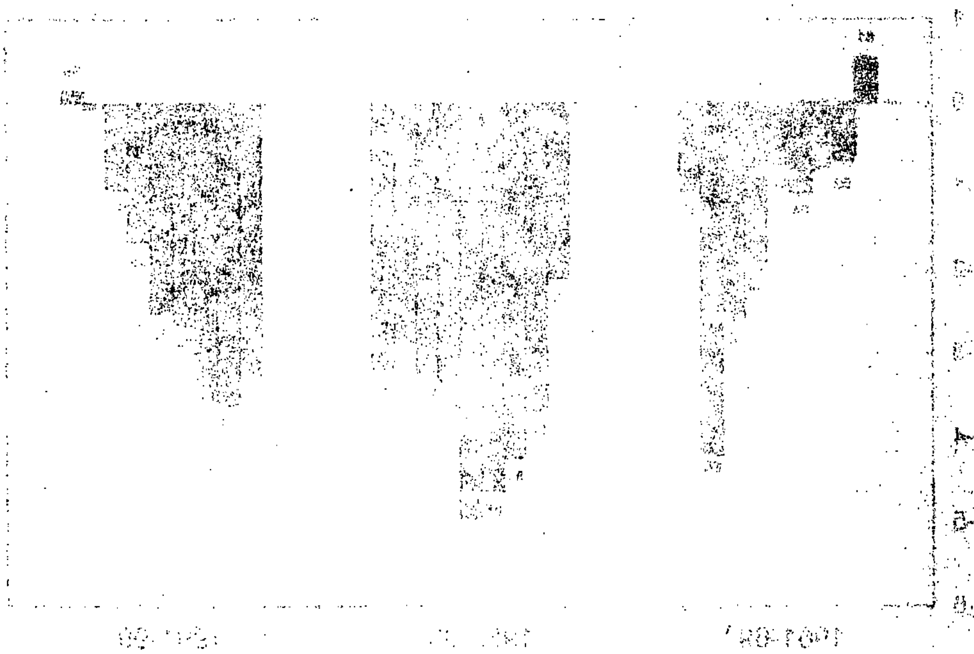
Weekly Economic Briefing of the President of the United States

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

January 14, 2000

CHART OF THE WEEK

The Structural Budget Balance in Three Long Expansions



The structural budget balance has moved steadily from deficit to surplus over the last [illegible] years of this expansion. In the 1961-69 expansion, by contrast, the structural deficits grew larger until the 1968 tax increase, and the structural deficit was large throughout the 1982-90 expansion. (The structural deficit reflects adjustments to the deficit to remove cyclical and temporary factors; it measures what the deficit would be at [illegible].) A Special Analysis in this Briefing discusses other features of fiscal policy in this expansion.

THE PRESIDENT HAS SEEN
01-17-00

SPECIAL ANALYSIS

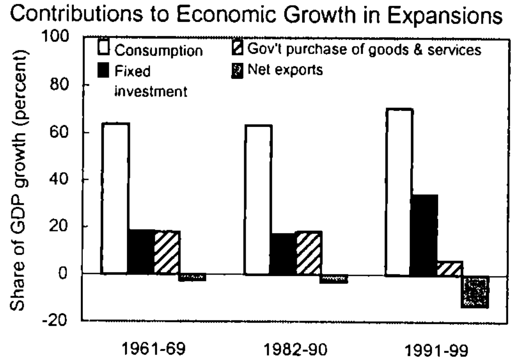
Fiscal Discipline and Economic Growth

As shown in the Chart of the Week, the decline in the structural budget deficit in this expansion has been unusual compared with what happened in the other two long expansions. This reflects an unusual decline in federal expenditures relative to GDP.

Copied
Baily
Podesta

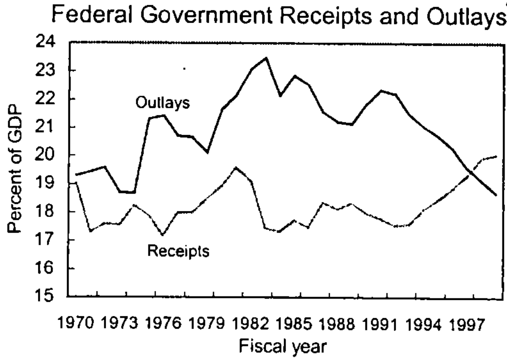
Contributions to growth. Growth in GDP can be disaggregated into the contributions of the major demand components: consumption, investment, government purchases, and net exports. In this expansion, the proportion of growth represented by consumption (the largest component of GDP) has been a little higher than in the other long expansions and the negative contribution of net exports has been larger (see upper chart). The difference that reflects fiscal discipline, however, is the relatively small contribution from government and the relatively large contribution from private fixed investment. Moreover, the modest contribution of government is entirely accounted for by growth in state and local spending: federal purchases of goods and services were smaller in 1999 than they were in 1991 after adjusting for inflation.

Contributions to Economic Growth in Expansions



Federal expenditures and revenues. Total federal expenditures, which include Social Security and other transfers in addition to purchases of goods and services, fell from 22.3 percent of GDP in 1991 to 19.0 percent in 1999 (see lower chart). This decline of 3.3 percentage points is more than twice the decline of 1.3 percentage points during the 1982-90 expansion. Moreover, the decline in spending in the 1980s was associated with a decline in revenues (as a share of GDP), whereas the decline in the current expansion occurred during a period of rising revenues. This contradicts the view that increases in government revenue simply invite a corresponding increase in spending.

Federal Government Receipts and Outlays



Analysis. Budget deficits can be useful in stimulating the economy when private demand is weak. And arguably they served that role in the early stages of the 1960s and 1980s expansions. However, fiscal restraint was applied too late to prevent a sharp rise in inflation later in the 1960s expansion. It was never a feature of the 1980s expansion, and the combination of loose fiscal policy and tight monetary policy was associated with relatively high real interest rates and declining saving and investment. In the current expansion, by contrast, fiscal discipline has allowed monetary policy to accommodate strong growth with low inflation. Interest rates have been lower than they would have been without fiscal discipline, and investment has flourished.

SPECIAL ANALYSIS

Bugs Bunny Online: Not a Mickey Mouse Merger

America Online (AOL) and Time Warner agreed to merge this week in a stock deal that combines an older media franchise with one of the better known players in the new world of the Internet. In this "merger of equals," AOL is far smaller than Time Warner in terms of revenue ($1.5 billion versus $6.7 billion in the third quarter of 1999). Nevertheless, with its higher market value, AOL was able to offer to buy out Time Warner shareholders while leaving AOL shareholders with 55 percent of the shares in the new AOL Time Warner.

AOL's dilemma. AOL is an Internet service provider (ISP) that also supplies its own content to more than 20 million members of its America Online service. Most AOL customers dial in on an ordinary phone line to receive relatively slow "narrowband" access. Broadband access that increases the speed at which consumers can download their favorite news, music, and movie clips from the Web is now becoming available in two ways: through the local cable company's wire using a cable modem, and through the local phone company's wire using a digital subscriber line (DSL) service. AOL had been seeking at Federal, state, and local levels "open access" to provide its content over a broadband pipe, but it had been notably unsuccessful in persuading the largest cable company–AT&T–to open up its lines on terms acceptable to AOL.

Enter Time Warner. Time Warner is a multimedia company that is involved in many different ventures, including publishing, music and film production, and TV production for various cable networks such as its subsidiaries CNN and HBO. Time Warner also operates a number of cable systems throughout the country that serve approximately 13 million subscribers. Time Warner has upgraded about 85 percent of its systems to offer high speed broadband Internet access, but it still has relatively few broadband customers.

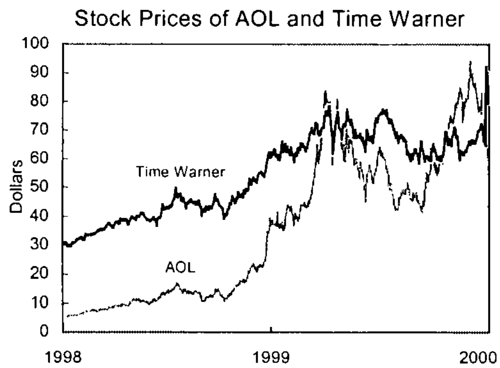
The plan. By merging, the combined company expects to realize synergies between the two operations. With its large customer base and expertise in marketing Internet services, AOL should be able to expand the number of Time Warner cable customers who purchase broadband access. The new company will also benefit from marketing Time Warner content to existing AOL subscribers.

Competition and Internet access issues. The merger will not solve all of AOL's broadband access issues, since Time Warner's systems still represent only a fraction of the nation's total cable consumers. Thus, it is not surprising that the two companies have said that they are "committed to ensuring consumer choice of ISPs and content," because AOL will still need broadband access for customers not served by Time Warner. It is far from clear, however, whether AOL Time Warner will actively push for legislation in this area.

Despite its large size, the new company will still face competition. In its existing dial-in business, AOL faces competition from many other national and regional Internet service providers, and there are a number of other providers of broadband access through wires owned by other cable and phone companies. With respect to content, Time Warner will still have to compete with other providers of news, information, music, and movies as it does today, and the companies have said nothing to suggest that they intend to restrict the sales of that content to a single distribution provider like AOL.

The proposed merger will be reviewed by the antitrust authorities, but there appear at first blush to be relatively few markets where the merger might substantially reduce competition under traditional antitrust guidelines. The FCC may review the merger under the Telecommunications Act of 1996. And incumbent phone companies may have an increased desire to seek relief or revisit the Act.

Stock market valuations. Over the past 2 years, both companies' stock prices have risen sharply, but the percentage gain has been much larger for AOL stock (see chart). In part at least, this difference reflects investor expectations that AOL's business has much more potential for earnings growth than Time Warner's. The terms of the merger call for AOL to pay a large premium to Time Warner's shareholders relative to its pre-merger value. For this deal to benefit AOL shareholders as well, the synergies from combining the two companies would have to be substantial. However, the historical results from previous mergers suggest that shareholders in acquiring firms tend not to benefit from mergers. And the initial market reaction to the AOL Time Warner deal was a 13 percent decline in the value of AOL stock during the two trading days following the announcement.



Future expectations. After the announcement of this merger, other Internet and media companies have seen their stock prices rise in anticipation of further mergers, but the shape of any future deals is less clear. AOL's leading role as both an ISP and a content provider is unusual in the online world, and other media and Internet companies may need to find a different model to use before attempting to blend traditional media with the Internet.

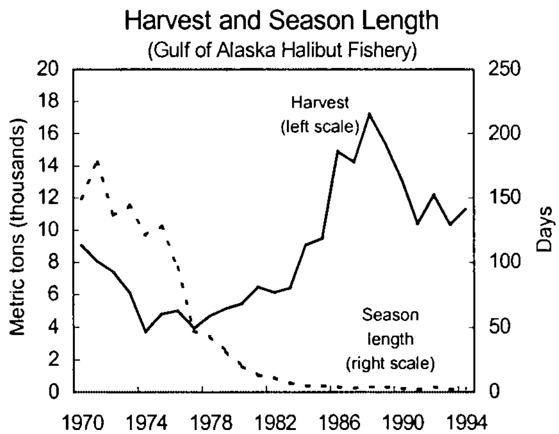
ARTICLE

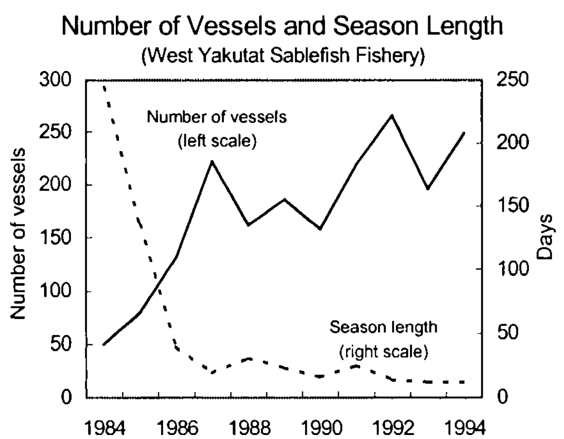
Fishery Business

Over-fishing continues to be a problem for most fisheries in the United States, according to a recent report from the National Research Council (NRC). The report, which was requested in the Sustainable Fisheries Act of 1996, confirms the efficacy of individual quotas for some fisheries as a tool for addressing this problem, and it recommends lifting the moratorium on introducing new quota programs that was imposed by the Act.

The over-fishing problem. Fisheries are a common property resource, and without effective management over-fishing is likely to occur. This is because individual fishers' decisions about how intensively to fish are unlikely to take into account the full costs of these decisions in depleting the fish stock and possibly even killing off a species.

Traditional management strategies. Some fishery managers have tried to prevent over-fishing by imposing an annual limit on the catch. This limit, called the total allowable catch (TAC), is set at a level designed to guarantee the sustainability of the fishery, and the season usually ends once this limit is reached. This creates an additional problem, however, as each fishing crew tries to beat the rest of the fleet and capture as large a fraction of the TAC as possible. The "derbies" that result can be quite wasteful; fishers over-invest in gear and purchase ever-larger boats, making the derbies even more frenetic.





Inefficiency. When this process significantly shortens the fishing season, consumers' access to certain species of fresh fish is restricted and fishers' work efforts are concentrated in a short, intense season. In the central Gulf of Alaska halibut fishery, for example, the season collapsed from a high of over 170 days in 1971 to 2 days in 1991, while the total catch more than quadrupled from 1974 to 1988 (see upper chart). In the West Yakutat sablefish fishery, the number of vessels increased almost fourfold in only 4 years in the mid-1980s as the number of days fell sharply (see bottom chart). Shorter seasons have also been associated with higher accident rates, because, with a season of only a few days, the decision to sit out bad weather is often tantamount to sitting out the season.

A possible solution. A potentially more efficient approach for some fisheries is to allocate shares of the TAC through individual quotas and allow fishers to trade these quotas in an open market. Under a quota system, each fisher has a right to a specified share of the TAC in each year, and each can catch this share in the cheapest manner possible without having to worry about the behavior of competitors. The incentives to concentrate production in the early portion of the season and to over-invest in capital disappear. Overall efficiency is improved further when the quotas are transferable, because less efficient fishers have an incentive to sell their rights to more efficient fishers.

Experience with individual quotas. The NRC report finds that individual quotas have been used extensively around the world, with very promising results. New Zealand first introduced a program in 1986 and at least 7 other countries now employ individual quotas. The creation of each of the four U.S. programs underway before the moratorium was imposed arose, in part, out of a concern over the build-up of fishing capital. In two of these (the surf clam/ocean quahog fishery and the wreckfish fishery) over-harvesting has ceased, and there is evidence that the total quantity of capital has subsequently fallen. In the Alaskan halibut and sablefish fisheries, the annual harvest did not exceed the target in the first 2 years of the quota program, after doing so by an average of 6 percent over the previous 17 years.

Conclusion. The moratorium on new individual quota programs imposed by the Sustainable Fisheries Act of 1996 runs through October 1, 2000. In recommending that the Congress lift this moratorium and allow regional fisheries to use individual quotas, the NRC report emphasizes that the quotas are not a panacea applicable to all fisheries. But it also concludes that past experience has repeatedly demonstrated the effectiveness of individual quotas in matching harvesting and processing capacities to the resource, slowing the race to fish, providing consumers with a better product, and reducing wasteful and dangerous fishing.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

The Gender Pay Gap in Top Corporate Jobs. Between 1992 and 1997, about 2.5 percent of high-level executives in U.S. corporations were women. According to a recent study, these women earned about 45 percent less than their male counterparts. As much as three quarters of this gender gap can be explained by the fact that women tend to manage smaller companies and are less likely to be CEOs, chairs, or company presidents. Taking into account that female executives also tend to be younger and have less seniority than males reduces the unexplained gender gap to just 5 percent. While the absence of a significant conditional gender gap implies that women and men who hold similar jobs in firms of similar size receive fairly equal compensation, it does not rule out the possibility of discrimination in terms of gender segregation or promotion.

Children's Life Prospects Diverge. The number of children under age 6 with particularly bright futures and the number with particularly dim futures both rose between 1976 and 1996, according to a recent study. Looking at both "risk factors" and "opportunity factors" in young children's environments that are associated with negative and positive adult outcomes, the study found that the share of young children with particularly good prospects rose from 9 percent to 26 percent. Most of this growth resulted from having mothers who are now more educated and more likely to delay childbearing. The proportion of children with poor prospects—having a teen or unmarried mother, having a mother without a high school degree or living in poverty—rose from 8 percent to 12 percent. Applying this analysis to children in cities and suburbs, the study found increases in both good and bad prospects in both cities and suburbs. But it also found that in 1996 half of all children with poor prospects lived in central cities, while two-thirds of all children with good prospects lived in suburbs.

Manufacturing Increasingly Relies on Temporary Workers. The manufacturing sector increased its use of temporary help workers in the 1990s, according to a recent study. The study argues that because the official BLS data count these temporary workers as service sector not manufacturing employees, the number of jobs generated in manufacturing has been underestimated, manufacturing productivity has been overstated, and the decline in manufacturing hours has been overestimated. Not counting these workers in manufacturing explains, in part, the apparent flatness of manufacturing employment in the 1990s. While official data suggest that the expansionary period between 1992 and 1997 generated only 550,000 manufacturing jobs, accounting for the temporary workers implies that, in fact, as many as 1,060,000 new jobs were created. The decline in manufacturing hours between 1989 and 1997 also disappears once temporary help workers are taken into account. The study finds that excluding temporary help workers raises manufacturing productivity (and lowers service sector productivity), but it does not account for much of the gap between the high rate of growth in manufacturing productivity and the low rate in services. Nor does it change the rate of growth of productivity for the nonfarm sector as a whole.

INTERNATIONAL ROUNDUP

European Commission to Create Food Safety Authority. In a White Paper published this week, the European Commission unveiled plans to create an independent European Food Authority, with the aim of restoring public confidence in European food policy after a series of food alerts and crises in recent years. The intention is that the Authority will be guided by the best science and work closely with national scientific bodies. It will be independent of industrial and political interests and open to public scrutiny. Its main tasks will be disseminating independent scientific information on all aspects of food safety, operating a rapid alert system, and communicating with consumers on issues of food safety and health. The White Paper envisions the Authority beginning operations in 2002, once the necessary legislation is adopted.

China to Shut Down Steel Plants. China has announced plans to close its small steel plants, which may result in the loss of thousands of jobs. Small smelters and mills with annual production capacities below 100,000 tons are to be closed, affecting more than 2,500 plants. Plants that rely on small and backward steel blast furnaces and converters will also be closed. According to the *China Daily*, most of the plants in question are low-technology operations that waste resources and generate serious pollution. The plan will allow the government to obtain better control of steel output. China's goal is to achieve a 10 percent reduction of steel output this year in order to alleviate a current steel market glut. The plant closures will be enforced with strict measures, including denying designated plants raw materials, power supplies, credit, environmental licenses, and markets for their steel.

Russia's Health Crisis. Russia is in the midst of a health crisis, with deaths currently exceeding births by about 700,000 a year. Some experts estimate that without immediate policy measures, Russia's population is on track to drop to 80 million in 50 years from about 150 million today. Drug-resistant tuberculosis, AIDS, and cardiovascular disease are rampant. Some estimate that over 10 million Russians will be infected with HIV by 2005. The death rate from cardiovascular disease in Russia is higher than the death rate in the United States from all causes combined. Alcohol abuse poses additional concerns. In 1996, over 35,000 Russians died from unintentional alcohol poisoning; the comparable U.S. figure is 300. The experiences of countries like Thailand and Uganda in successfully lowering HIV infection rates show the positive impact when diverse government ministries, NGOs, and grassroots community groups join forces to raise local awareness. However, it has been argued that Russia's leadership has done little to promote "healthy lifestyles" domestically.

RELEASES THIS WEEK

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

The Federal Reserve's index of industrial production increased 0.4 percent in December. Capacity utilization rose 0.1 percentage point to 81.3 percent.

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

The consumer price index rose 0.2 percent in December. Excluding food and energy, consumer prices rose 0.1 percent. For the 12-month period ending in December, consumer prices rose 2.7 percent; excluding food and energy, consumer prices rose 1.9 percent.

Retail Sales

Advance estimates show that retail sales increased 1.2 percent in December following an increase of 1.1 percent in November. Excluding sales in the automotive group, retail sales rose 1.4 percent following an increase of 0.7 percent.

Producer Price Index

The producer price index for finished goods rose 0.3 percent in December. Excluding food and energy, producer prices rose 0.1 percent. For the 12-month period ending in December, producer prices rose 3.0 percent; excluding food and energy, producer prices rose 0.9 percent.

MAJOR RELEASES NEXT WEEK

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

U.S. ECONOMIC STATISTICS

	1970-1993	1998	1999:1	1999:2	1999:3
Percent growth (annual rate)					
Real GDP (chain-type)	3.0	4.6	3.7	1.9	5.7
GDP chain-type price index	5.2	1.1	2.0	1.3	1.1
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	3.1	2.7	0.6	4.9
Real compensation per hour:					
Using CPI	1.0	3.9	2.8	1.2	2.1
Using NFB deflator	1.5	4.7	2.9	2.9	4.4
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.5	12.6	12.6	12.7
Residential investment	4.5	4.2	4.4	4.5	4.4
Exports	8.2	11.0	10.7	10.7	10.8
Imports	9.2	12.7	12.9	13.4	13.8
Personal saving	6.6	2.6	2.2	1.8	1.5
Federal surplus	-2.8	0.5	1.1	1.3	1.4

	1970-1993	1999	October 1999	November 1999	December 1999
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.1	4.1
Payroll employment (thousands)					
increase per month			284	222	315
increase since Jan. 1993					20367
Inflation (percent per period)					
CPI	5.8	**2.7**	0.2	0.1	**0.2**
PPI-Finished goods	5.0	**3.0**	-0.1	0.2	**0.3**

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

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

FINANCIAL STATISTICS

	1998	1999	November 1999	December 1999	Jan. 13, 2000
Dow-Jones Industrial Average	8626	10465	10810	11246	11582
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.07	5.20	5.25
10-year T-bond	5.26	5.65	6.03	6.28	6.63
Mortgage rate, 30-year fixed	6.94	7.43	7.74	7.91	8.18
Prime rate	8.35	8.00	8.37	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level January 13, 2000**	**Percent Change from** Week ago	Year ago
Euro (in U.S. dollars)	1.027	-0.5	-12.2
Yen (per U.S. dollar)	106.1	0.9	-6.5
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	92.80	0.2	1.2

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	4.3 (Q3)	4.1 (Dec)	**2.7** (Dec)
Canada	4.2 (Q3)	6.9 (Nov)	2.1 (Nov)
Japan	1.0 (Q3)	4.6 (Nov)	-1.2 (Nov)
France	2.9 (Q3)	10.7 (Nov)	0.9 (Nov)
Germany	1.3 (Q3)	9.0 (Nov) 2/	1.0 (Nov)
Italy	1.2 (Q3)	12.1 (Apr)	2.0 (Nov)
United Kingdom	1.8 (Q3)	5.9 (Sep)	1.4 (Nov)

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

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 unified Germany.