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Weekly Economic Briefing of the President

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10·12·99

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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
Jennings
Podesta

October 8, 1999

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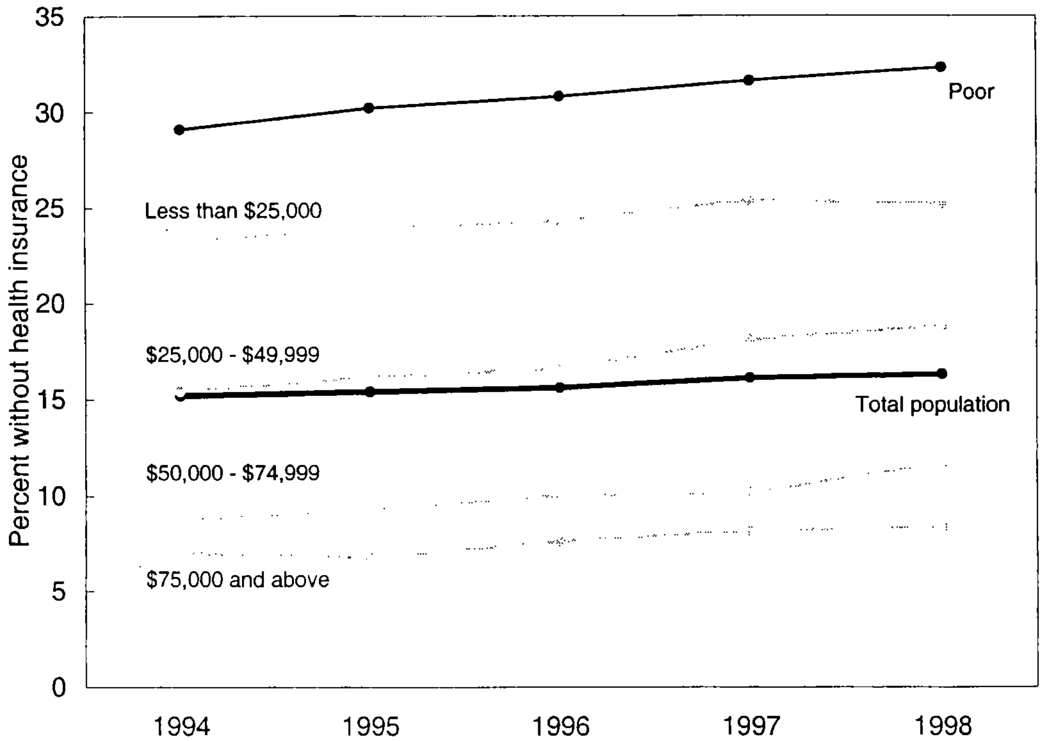
CHART OF THE WEEK

Lack of Health Insurance Coverage by Income Group



The latest data on health insurance coverage show an increase in the share of people without health insurance from 16.1 percent in 1997 to 16.3 percent in 1998. Among the four income groups shown in gray, the two middle income groups experienced the largest increases in the share of people without health insurance. While health insurance coverage increased among households with less than $25,000 in income, the proportion of people living in poverty and without health insurance went up to 32.3 percent.

How many ~~not~~ eligible for Medicare?

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CONTENTS

TREND

SPECIAL ANALYSIS

ARTICLE

DEPARTMENTS

"But we're playing *cell* phone! It's *supposed* to be annoying."

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TREND

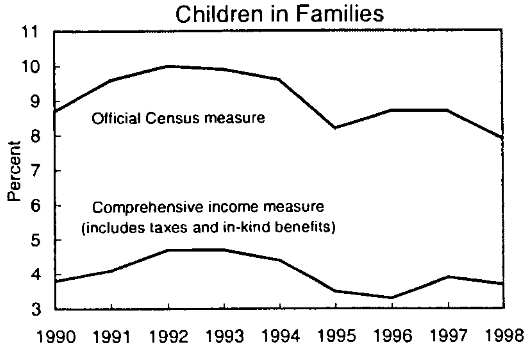
Extreme Child Poverty and the Income of Single Mothers

Based on their analysis of income and poverty data through 1997, the Children's Defense Fund (CDF) and the Center on Budget and Policy Priorities (CBPP) this summer reported disturbing trends in extreme child poverty and the income of female-headed households with children. However, a new Department of Health and Human Services analysis shows that these trends did not continue in 1998.

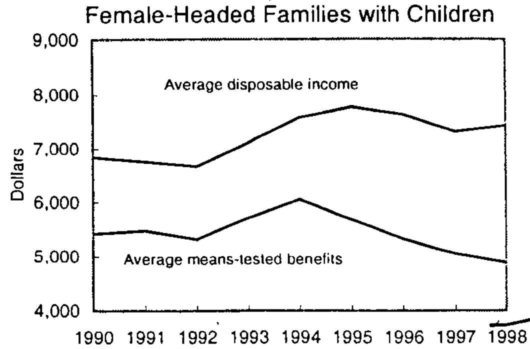
Background. The CDF report focused on extreme poverty (household income less than half the poverty threshold). While official Census data showed no change from 1996 to 1997 in the proportion of children living in extreme poverty, CDF used a comprehensive definition of income that includes the effects of in-kind benefits, such a food stamps (but not medical care), and taxes. Under this definition, the proportion of children living in extreme poverty jumped from 3.3 percent in 1996 to 3.9 percent in 1997. The difference between the Census and CDF findings appears to reflect a decline in in-kind benefits (mainly food stamps) between 1996 and 1997 for this group. This point was further emphasized in the CBPP report, which found that means-tested cash and in-kind benefits received by poor female-headed families with children fell substantially between 1995 and 1997, contributing to a decrease in disposable income for this group.

Extreme Child Poverty. The HHS analysis of the latest poverty data shows that the extreme poverty rate for children in families decreased between 1997 and 1998 under both the official and the comprehensive measures (see upper chart). However, the drop in the Census measure was much larger (from 8.7 to 7.9 percent, or over 550,000 children). The decline in the comprehensive measure from 3.9 to 3.7 percent (a drop of just over 100,000 children) was not statistically significant, and this measure remains higher than it was in 1995. Nevertheless, the new data provide a less discouraging picture of the trend in extreme child poverty than the one based on 1997's data.

Extreme Poverty Rates for Children in Families



Income and Benefits for Bottom Fifth of Female-Headed Families with Children



Female-headed households. The trend toward lower disposable income for the poorest fifth of female-headed households with children ~~reported~~ by the CBPP was also halted in 1998. The HHS analysis shows that the average

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means-tested benefits received by this group continued to decline in 1998 (see lower chart on previous page). However, earnings and other income increased by more than enough to offset the decline in benefits, leading to an increase in average disposable income (the comprehensive definition of income). As a result, the comprehensive measure of the poverty rate for female-headed families declined slightly between 1997 and 1998.

Conclusion. Trends since 1995 in extreme child poverty and in income and poverty among low-income female-headed households with children are being used by some groups as indicators for assessing welfare reform. The latest data show that the disturbing trends in last year's data have been arrested. And the increase in earnings and other income for those most likely to have been affected by welfare reform is encouraging. Still, child poverty rates remain high and ~~receipt of in-kind benefits like food stamps~~ continues to decline.

Why? They're eligible & hungry? Gene

SPECIAL ANALYSIS

An Alternative to Stricter Medicaid Asset Limits

A recent article in the *Weekly Economic Briefing* cited new evidence that Medicaid rules could encourage transfers of assets to other family members by people who anticipate that they will enter nursing homes. Meanwhile, the market for private long-term care insurance is developing slowly, with less than 5 percent of total long-term care costs paid for by such insurance. This follow-up suggests that the transfer issue could become more important in coming years, and examines an approach that some states have taken to create positive incentives for individuals to purchase long-term care insurance as an alternative to imposing more stringent Medicaid qualification limits.

Increasing asset transfers may put more pressure on Medicaid. The shift from defined-benefit to defined-contribution pension plans will increase the number of retirees with non-annuity pension wealth that might potentially be transferred to other family members. Significant asset transfers could affect Medicaid costs, which have skyrocketed for many years and in 1996 consumed over 20 percent of state budgets, rivaling the cost of education.

Partnership programs offer an interesting alternative. A 1988 initiative established partnerships between state Medicaid programs and private long-term care insurance companies. Partnership programs were first introduced in four states (California, New York, Connecticut, and Indiana). At least 11 other states considered similar programs shortly thereafter, but provisions of the 1993 Omnibus Budget and Reconciliation Act have discouraged implementation. The four existing Partnership programs, which were granted waivers to continue, vary in structure, but all offer benefits to pay for long-term care costs while providing Medicaid asset protection. Key features of these plans include:

- a minimum daily benefit whose value is adjusted for inflation;
- portability of long-term care benefits (but a residence requirement in the issuing state for initial purchase and for Medicaid asset protection);
- retention of some or all assets above the state Medicaid limit (without changing the income limits).

This last feature means that individuals still contribute toward their nursing home care, but it reduces the incentive to transfer assets.

Early indicators are encouraging. Preliminary evaluations suggest that partnership programs have successfully attracted middle-income-and-asset households—exactly those who might otherwise transfer their assets in order to qualify for Medicaid. In New York, partnership insurance accounts for 20 percent of all long-term care policies active in the state. In addition, partnership policies

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may represent a more affordable long-term care option for some people. In Connecticut, for example, it is only necessary to purchase an amount of insurance equal to the amount of assets an individual wishes to protect. These early indicators suggest that partnership policies may present a viable way to address the transfer problem.

Policy implications. Partnership programs are consistent with Administration goals of increasing long-term care insurance coverage, expanding Medicaid eligibility, and encouraging partnerships between Medicaid and qualified elderly housing. However, even in states that have partnership programs, few people purchase long-term care insurance. For example, a survey of non-partnership long-term care insurance purchasers in California found that 80 percent did not know about the program. The Administration's proposed national long-term care education campaign can help increase public awareness of these programs.

Conclusion. The Administration has proposed a major initiative to address the Nation's long-term care needs. Some version of partnership programs may offer additional encouragement for using private long-term care insurance rather than simply transferring assets to qualify for Medicaid.

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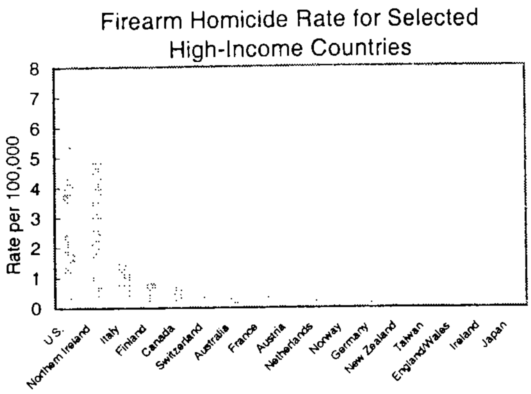
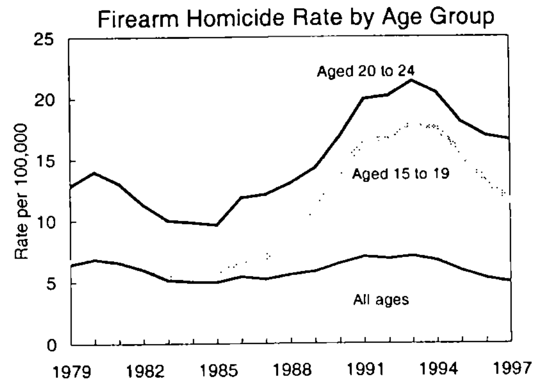
ARTICLE

The Costs of Gun Violence

The medical costs of treating gunshot injuries are large, and approximately half of these costs are borne by taxpayers. But gun violence also imposes economic and social costs that go well beyond these direct medical expenditures.





Incidence of gun violence. The United States leads the developed world in the incidence of gun violence (see upper chart). The rates shown in the chart (for years in the early 1990s) imply total firearm homicides of about 6 per year in New Zealand, 25 in Japan, 36 in England, 179 in Germany, 214 in Canada, and over 18,000 in the United States. Gun violence exacts its highest toll among younger people. Roughly 75 percent of gunshot victims are under 30 years old. And while the homicide rates among older age groups have fallen since 1979, homicide among those aged 15 to 24 ballooned in the early 1990s and has remained high despite recent declines (see lower chart).

Medical costs. One recent study estimates that total gunshot-related medical costs in 1994 were $2.3 billion, or $17,000 for each of the 130,000 gunshot injuries in that year. Non-fatal gunshot injuries, three-quarters of which are inflicted in assaults, accounted for a disproportionate share of total medical costs. Eighty-five percent of total medical costs from gunshots were incurred in treating hospitalized gunshot survivors, ~~and the average lifetime cost of treating~~ a hospitalized gunshot survivor was $35,000. Costs for hospitalized gunshot victims who survive their injuries are higher because the majority of medical treatment costs are incurred in the years after a patient's discharge from the hospital, reflecting the magnitude of follow-up treatment costs from gun violence.

Taxpayer share of costs. Because approximately 80 percent of discharged gunshot victims do not have private insurance, taxpayers incur a large share of the medical costs of gun violence. While government programs are the primary payers for 40 to 50 percent of hospitalized gunshot injury cases generally, the government pays an even greater share of the costs of more expensive gunshot injuries requiring hospitalization. For example, government programs are the primary payer of acute-care costs for approximately 63 percent of spinal cord injuries due to gunshots and 89 percent of spinal injury cases after initial hospitalization. In addition, hospitals may shift some of the losses they incur treating gunshot victims to privately insured patients.

Costs to hospitals. Gunshot wounds can impose a large burden on the hospital system. At one major trauma center in Northern California, for example, gunshot injuries accounted for about 1 percent of injury-related admissions, but they accounted for as much as 9 percent of trauma service admissions and 14 percent of trauma service hospital stays between 1990 and 1992. This trauma center estimated that reimbursement for firearm-related admissions was only 37 percent of total charges.

Additional costs. While large in absolute terms, direct medical costs are only a small part of the overall cost of gun violence. For example, one frequently cited study estimated that the value of output lost due to victims' reduced labor force participation is roughly 10 times greater than the direct medical costs. In addition, fear of gun violence can impose social costs. A recent study that used survey data to estimate how the public values reductions in gun violence estimated that, collectively, Americans would be willing to pay $24 billion for a 30 percent reduction in gun violence. This estimate implies a total cost per gun injury of $750,000 (or about forty times the estimated medical cost noted above).

Conclusion. While the medical costs of gun violence are significant, these costs represent only a small fraction of the total financial burden imposed by endemic gun violence in the United States. High levels of youth firearm violence are particularly costly because they can be associated with high levels of lifetime follow-up medical costs for survivors and many years of lost labor market activity associated with both injuries and death.

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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Fed Holds the Line but Adopts a Bias toward Tightening. On Tuesday, the Federal Open Market Committee voted to leave its target for the federal funds rate unchanged. Although it noted that strengthening productivity growth has been fostering favorable trends in unit costs and prices, the FOMC also observed that the pool of available workers willing to take jobs was shrinking and that it would have to be especially alert in the months ahead to possible inflationary pressures. Accordingly, it adopted a directive that was biased toward a possible firming of policy going forward—though committee members emphasized that this did not signify a commitment to near-term action. Indeed, several times in the past, the FOMC has adopted a bias toward tightening without raising rates in the near term.

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Telecom Consolidation Continues. This week, MCI Worldcom announced plans to acquire Sprint in a deal that would combine the second and third largest long distance companies. If the merger is completed, the new company's share of the long distance market would be approximately 36 percent, compared with 43 percent for AT&T. Separately, the FCC announced approval of the merger between local carriers SBC and Ameritech, but it attached a list of 30 conditions to ensure that the combination would not harm consumers. One provision requires SBC to enter at least 30 local phone markets outside of its region or face almost $1.2 billion in fines. Another provision imposes a "most-favored nation" clause covering terms SBC may negotiate with other phone companies. To enter outside of its region, SBC may need to lease network elements from other phone companies, and this clause requires SBC to make similar terms available to entrants in its own region. Although such provisions could benefit new entrants in SBC's region, these provisions may also make it less likely that SBC will aggressively seek to enter other regions. If SBC knows that a "good" deal outside its region will reduce revenues within its region, then it may not seek terms that would lead it to price more aggressively outside of its own region.

Survey Examines How Families Use the EITC. Over half of EITC beneficiaries planned to use their refund to improve their long-term economic well-being by saving, moving to a safer neighborhood, paying tuition, or purchasing or repairing a car, according to a recent study of low-income Chicago families. Almost all families receive the EITC as an annual, lump-sum tax refund check. This allows credit-constrained low-income families to move beyond current consumption by using the EITC to make extraordinary types of purchases or expenses. The study found that families who had access to financial institutions were more likely to use their refund for their long-term economic improvement. Making ends meet was also an important use of the EITC for almost one-half of the sample. The authors observe that the EITC allows families to do what they otherwise could not; without it, almost 90 percent either could not meet their top priority use of the EITC refund, would have to spend a lesser amount, or would be forced to delay their top priority.

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INTERNATIONAL ROUNDUP

World Bank Launches New Global Poverty Initiative. The World Bank has released new findings on global poverty to mark the beginning of an expanded anti-poverty strategy that combines the efforts of the Bank, the IMF, and client governments. The Bank reports that poverty numbers, which dropped worldwide in the mid-1990s, have risen following the Asian financial crisis. Of the world's 6 billion people, 3 billion live on less than $2 per day and 1.3 billion live on less than $1 per day. The Bank notes that, under current trends, the international community will fall short of its goal of halving the world's poverty rate by 2015. Moreover, concerns about corruption, violence, powerlessness, and insecure livelihood remain widespread among the world's poor. To battle poverty, the new initiative combines plans for faster, broader debt relief with a strategy to balance macroeconomic and financial reforms with human, structural, and social concerns. The enhanced strategy will be introduced first in countries that are eligible for the Heavily Indebted Poor Countries (HIPC) initiative. In addition, the HIPC program was strengthened during the World Bank/IMF annual meetings last week when developed countries pledged a new infusion of cash into the program, which is now expected to help 36 countries.

China to Offer Foreign-Investment Tax Breaks. Beginning January 1, China will offer tax breaks and other preferences for foreigners investing in poorer regions. China is one of the largest recipients of foreign direct investment (FDI) in the world, but FDI fell almost 10 percent in the first half of 1999 from a year earlier, exacerbating the slowdown in economic growth. Also, inland areas have developed much less rapidly than coastal areas in recent years. The new regime addresses these concerns by allowing foreign enterprises in the poor central and western provinces to receive a preferential tax incentive for 3 years. China's government also announced several other incentives for technology transfer to poor regions, including a business-tax exemption for transferring advanced technology into the country and an import-tariff exemption for equipment and parts used by foreign investors for technological innovation.

Outlook for Global Steel Market Brightens. Global market conditions for steel are improving briskly, following 2 years of economic turmoil, according to a report from the International Iron and Steel Institute. Last year, global demand fell from its 1997 peak, but the report argues that strong consumption growth in the second half of 1999 should more than recoup the loss, and it projects continued strong consumption growth of about 3 percent next year. Growth in Asia (especially Korea and China) should lead the recovery, with Brazil and other South American countries expected to follow in 2000. In 1998, trade flows showed some massive surges as producers redirected sales from weak to buoyant markets. Trade balances in steel declined sharply in some major trading countries (the EU and the United States), as Japan and Korea increased exports in response to weak home markets. The report estimates, perhaps optimistically, that the EU's balance will improve, but not by enough to offset the earlier decline, while the U.S. balance in steel should return to near pre-1998 levels.

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RELEASES THIS WEEK

Employment and Unemployment

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

In September, the unemployment rate was unchanged from August at 4.2 percent. Nonfarm payroll employment decreased by 8,000.

Leading Indicators

The composite index of leading indicators fell 0.1 percent in August, after increasing 0.3 percent in each of the prior three months.

MAJOR RELEASES NEXT WEEK

Retail Sales (Thursday)
Industrial Production and Capacity Utilization (Friday)
Producer Prices (Friday)

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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	1.6
GDP chain-type price index	5.4	0.9	0.8	1.6	1.3
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	2.6	4.1	3.6	0.6
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	3.7
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	4.7
Exports	8.2	11.3	11.3	10.9	11.0
Imports	9.2	13.0	13.1	13.2	13.7
Personal saving	5.2	0.3	-0.0	-0.5	-0.9
Federal surplus	-2.7	0.9	0.8	1.4	1.6

	1970-1993	1998	July 1999	August 1999	September 1999
Unemployment Rate (percent)	6.7**	4.5**	4.3	4.2	**4.2**
Payroll employment (thousands)					
increase per month			**373**	**103**	**-8**
increase since Jan. 1993					**19409**
Inflation (percent per period)					
CPI	5.8	1.6	0.3	0.3	N.A.
PPI-Finished goods	5.0	0.0	0.2	0.5	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, October 8, 1999**.

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FINANCIAL STATISTICS

	1997	1998	August 1999	September 1999	Oct. 7, 1999
Dow-Jones Industrial Average	7441	8626	10935	10714	10537
Interest Rates (percent per annum)					
3-month T-bill	5.06	4.78	4.72	4.68	4.70
10-year T-bond	6.35	5.26	5.94	5.92	6.05
Mortgage rate, 30-year fixed	7.60	6.94	7.94	7.82	7.82
Prime rate	8.44	8.35	8.06	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	**Current level October 7, 1999**	**Percent Change from Week ago**	**Percent Change from Year ago**
Euro (in U.S. dollars)	1.072	0.7	N.A.
Yen (per U.S. dollar)	107.7	0.8	-13.1
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	92.51	-0.1	-0.9

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	3.9 (Q2)	**4.2** (Sep)	2.3 (Aug)
Canada	3.7 (Q2)	7.7 (Jul)	2.1 (Aug)
Japan	1.1 (Q2)	4.9 (Jul)	0.2 (Aug)
France	2.1 (Q2)	11.3 (Jun)	0.5 (Aug)
Germany	0.6 (Q2)	7.1 (Jul)[2/]	0.6 (Aug)
Italy	0.8 (Q2)	12.1 (Apr)	1.7 (Aug)
United Kingdom	1.4 (Q2)	6.1 (May)	1.1 (Aug)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, October 8, 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 July was 9.1 percent.