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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

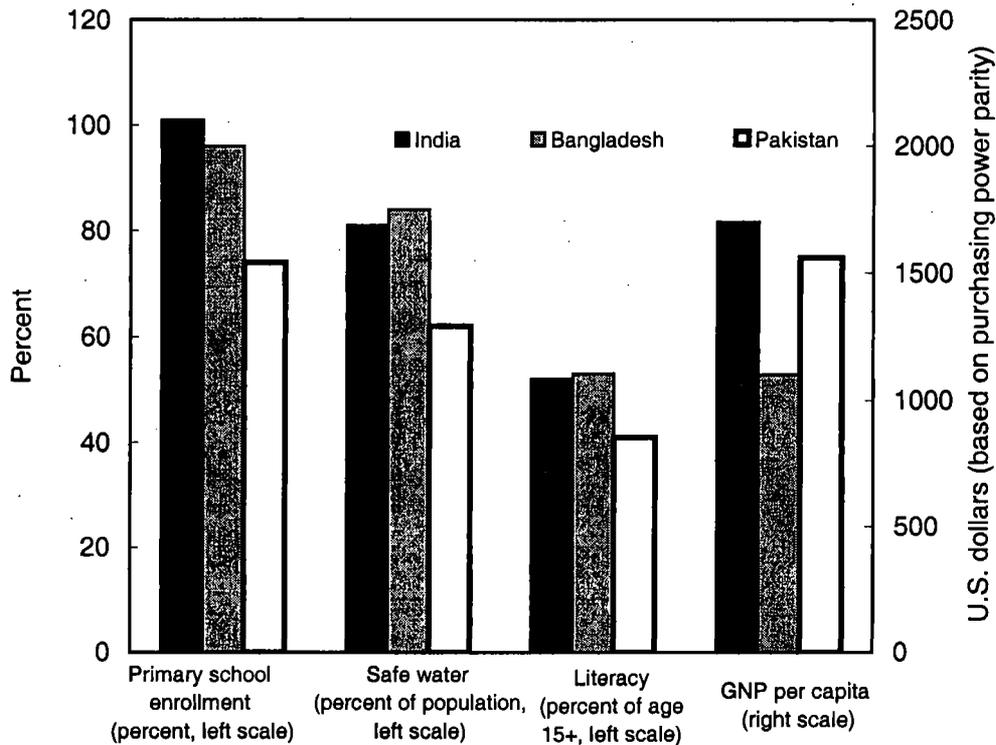
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

March 17, 2000

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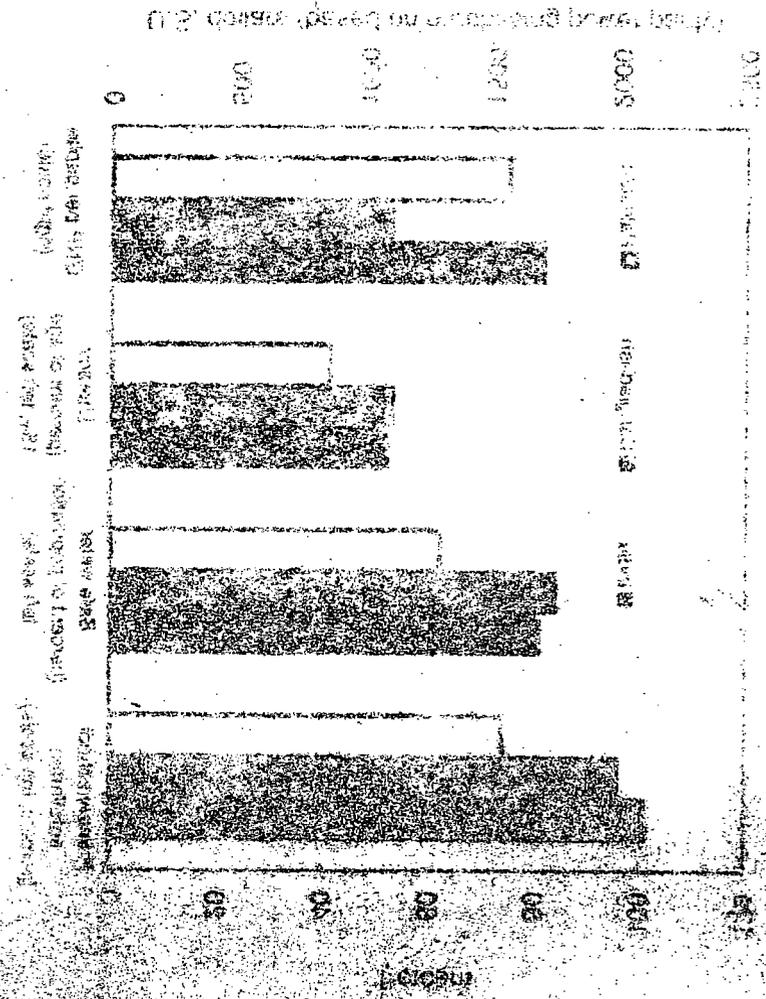
CHART OF THE WEEK

South Asia Social and Economic Indicators



Bangladesh, India, and Pakistan have similar levels of economic development, typical of low-income countries. Bangladesh is the poorest of the three in terms of GNP per capita, but Pakistan lags behind in other social and economic indicators.

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FROM 1960 TO 1989: ECONOMIC INDICATORS

CHANGE OF LIFE INDEX

INDEX 1960 = 100

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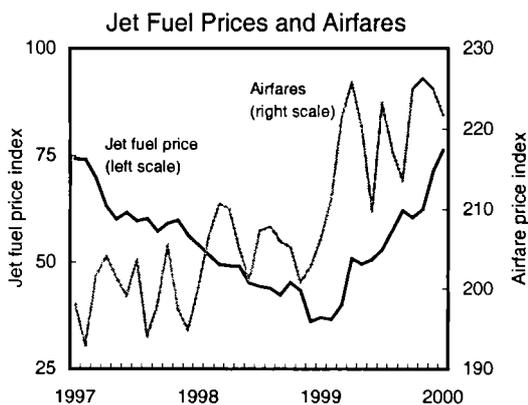


SPECIAL ANALYSIS

Supply and Demand for Air Travel

Airfares have risen 7 percent over the last year, while jet fuel costs have soared. High demand for air travel and tight capacity have also contributed to rising airfares. Looking forward, competition from low-fare carriers should help reduce average airfares as these airlines enter more routes.

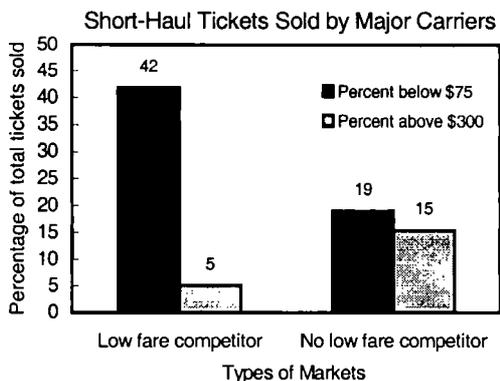
Fuel prices and airfares. Fuel accounts for about 10 percent of airlines' total operating expenses, so that the doubling in the price of fuel over the last year



implies a 10 percent increase in airlines' operating costs. The price of jet fuel is expected to fall back to its December 1999 level over the second half of this year. Although fuel prices and airfares have risen together over the last year (see upper chart), changes in fuel prices are not always a good predictor of changes in airfares. For example, between January 1997 and January 1999, fuel prices declined by 50 percent, yet airfares rose 4 percent.

Surging demand. A second explanation for the rise in airfares over the last several years is that surging demand has lead airlines to increase fares. Load factors (which represent a weighted average of seats filled) on domestic flights increased from about 65 percent in 1995 to over 70 percent in 1998 and 1999. With load factors running at record highs compared to the past two decades, airlines have less to gain from lowering fares. Although a recent attempt to raise fares faltered last weekend, rising fuel prices may provide an additional incentive for an oligopolistic industry to raise fares when demand is high.

Competition from low-fare carriers. Low-fare competitors force major airlines to be more generous in allocating seats to low-fare categories. With a low-fare competitor present, major carriers allocate 42 percent of short-haul seats to tickets



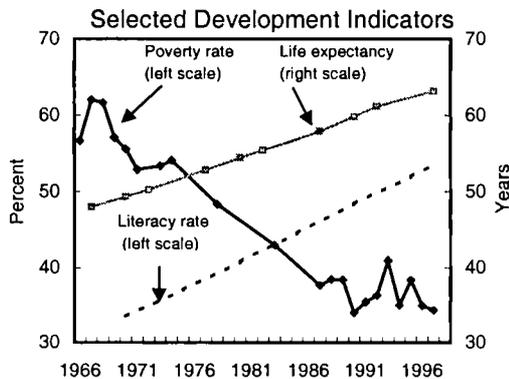
selling below \$75 each way, but if no low-fare carrier is present, the majors allocate only 19 percent of capacity to these low fares (see lower chart). By contrast, major airlines sell barely 5 percent of their capacity to travelers paying above \$300 each way in markets where low-fare carriers are present, compared to 15 percent of capacity otherwise.

ARTICLE

Poverty and Development in India

India has made substantial strides in reducing poverty since Independence in 1947. Its development strategy has helped expand the economy at a strong 6 percent annual rate for the past 2 decades, as well as eliminate famines, bring down high illiteracy and fertility rates, and establish a diversified industrial base with a relatively sophisticated financial sector. Nevertheless, growing inequality across states and large fiscal deficits, resulting in part from inefficient subsidies, remain pressing challenges.

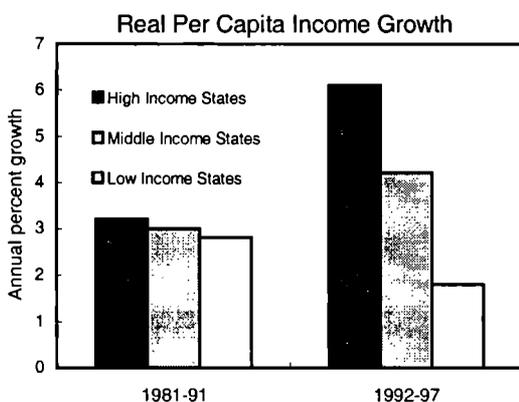
Progress, crisis, and reform. The poverty rate in India has declined significantly since the late 1960s and other social indicators have improved substantially as well (see upper chart). In the 1980s, real per capita GDP grew nearly 4 percent per year. However, the development strategy of the 1970s and 1980s was rooted



in an extensive system of trade protection and government regulation, which proved unsustainable and resulted in the 1991 balance of payments and fiscal crisis. Subsequent stabilization and reforms moved in the direction of opening up the economy, reducing the public sector's role, and liberalizing and strengthening the financial sector. These policies generated a quick recovery and

unprecedented GDP growth, led by productivity increases and a booming private sector. The apparent stagnation of the poverty rate in the 1990s may well be a statistical artifact resulting from a change in poverty survey methodology, as income per capita has grown nearly 5 percent each year. Nevertheless, with over 200 million people still undernourished, further reforms and liberalization are essential.

Differential growth and widening disparities among states. Recent growth has been uneven across India's 25 states (see lower chart). While poverty declined in



all states, progress was generally slower in low-income states, which constitute about 40 percent of India's total population. For example, although both states had around two-thirds of the population living below the poverty line in 1978, the poverty rate fell only 4 percentage points by 1994 in Bihar, India's poorest state, while it fell 24 percentage points in Maharashtra, a rich state containing

Mumbai (Bombay). More broadly, the gap in poverty rates between a group of low-income and other large states reached nearly 18 percentage points in 1997, more than twice as large as the gap in the 1980s.

Fiscal reform. The combined central and state government fiscal deficit is approaching 10 percent of GDP, posing another concern for sustainable development. In addition to crowding out private sector investment and raising risks of macroeconomic instability (such as inflation), high deficits and public debts constrain social and infrastructure spending that is critical to poverty reduction. Reducing the implicit and explicit subsidies, which are especially large in the power and irrigation sectors, would help contain fiscal deficits, increase efficiency, encourage private investment, and also free up resources for much-needed development spending.

Conclusion. The series of reforms carried out by the Indian government have had a profound effect on India's one billion people. Nevertheless, India remains an extremely poor country—with national per capita income less than a third of the world average—and much work remains to be done.

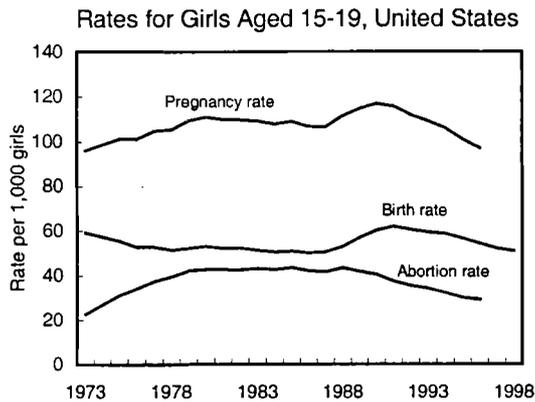
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But has teen birth rate
down?*

ARTICLE

Adolescent Pregnancy: Trends and Comparisons

Rates of adolescent childbearing, abortion, and pregnancy have declined in the United States in the 1990s. A new study shows that these trends have also occurred in many other developed countries. Nevertheless, the levels in the United States remain relatively high and are similar to those in transition economies like Ukraine and Bulgaria.

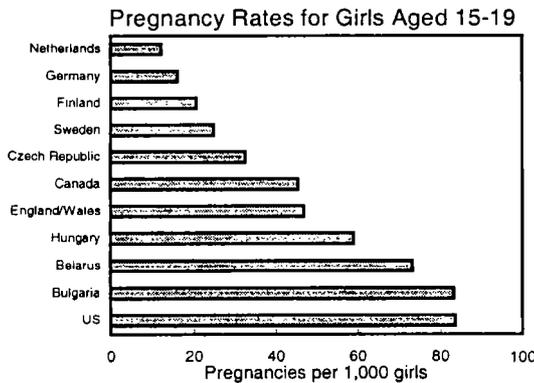
Trends for America's teenagers. Preliminary data for 1998 from the National Center for Health Statistics show a continued decline in the birth rate for American teens (see upper chart). The 1998 rate of 51 births per 1,000 females



15-19 is nearly 18 percent lower than the recent peak of 62 reached in 1991. The birth rate for black teenagers showed an even sharper decline, while that of Hispanic teenagers declined more modestly. The current rates for African Americans and Hispanics are about 2.5 times that of non-Hispanic whites. Other data show recent declines in teen pregnancy and abortion rates. The teen pregnancy rate decreased by approximately 16 percent

between 1991 and 1996 (the latest year available). The abortion rate declined by 22 percent over the same period, and the share of pregnancies ending in abortion fell.

International comparison. A recently published study compiled data on adolescent birthrates for 46 developed countries over recent decades, and gathered abortion and pregnancy rates for a subset of these countries. The range in the



pregnancy rates across these countries in the mid-1990s is very wide, from a low of 12 births per 1,000 adolescents females in the Netherlands to a high of about 83 per 1,000 in Bulgaria and the United States (see lower chart). Western European and other developing countries generally have lower teen pregnancy rates than eastern European countries and the United States. Over the early 1990s

adolescent pregnancy rates declined in nearly all of the reporting countries. International comparisons of adolescent birth and abortion rate data reveal a similar pattern.

**PHOTOCOPY
WJC HANDWRITING**



Conclusion. Adolescent childbearing has been tied to a number of negative outcomes for both the mother and the child. Recent declines in teen pregnancy rates are clearly good news. The pervasive decline seen across countries suggests the causes behind this trend are not limited to any one country.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Effects of Welfare Reform. A follow-up study to the 1997 and 1999 CEA reports on welfare caseloads examines the effects of welfare waivers and TANF on women without high school diplomas. The study found declines in welfare participation and poverty and increases in employment in waiver states. Effects on earnings and incomes were ambiguous. Waivers were associated with a modest increase in these women's probability of being married and a reduction in their probability of being the head of their household. TANF had a similar effect on poverty, and had twice as large an effect on welfare participation. The study found no effects of TANF on employment, earnings, family income, or household makeup. The study also looks at the distributional effects of welfare reform, and finds income gains to be evenly distributed under waivers, but concentrated among the middle and upper parts of the distribution of these women since implementation of TANF.

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Stable, High-Quality Child Care Increases Work. The presence of a well-developed and stable child care market has a strong positive effect on the probability that current and former welfare recipients will work, according to a recent study of Massachusetts families that received child care vouchers. In addition, reductions in the cost of child care significantly increase the probability of work. Availability of pre-kindergarten and kindergarten programs are also important. Whereas full-day programs are more conducive to working full-time, the results suggest that part-day kindergarten, pre-K, and Head Start programs are more conducive to parents continuing their education, which is easier to do on a part-time basis.

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Income Redistribution under Social Security. While Social Security is highly progressive at the individual level—redistributing income from high- to low-earners—a recent study suggests that the progressivity is less pronounced when looking at family incomes. Much of the total redistribution occurs from primary to secondary earners (usually from husbands to wives) within families. In addition, the spousal and survivor benefits cause a sizable redistribution from families where both spouses work in the labor force to families where a spouse spent a significant number of years outside of the labor force. This implies that one-earner families benefit under the current system more than two-earner families with the same lifetime earnings.

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INTERNATIONAL ROUNDUP

China Relaxes Rules on Encryption Technology. This week China backed away from restrictions on the use and sale of encryption technology that would have severely impeded the use of foreign software, mobile phones, e-mail and other communications products. In a statement released this week, the Chinese State Encryption Management Commission (SEMC) provided a “clarification” of regulations issued last year, stating that limits will only be placed on hardware and software for which encryption and decoding operations are core functions. The statement specifically stated that wireless telephones, browser software, and Microsoft Windows software are not included in this category and thus will not be restricted. The SEMC also stated that they will not carry out “encryption key trusteeship,” allaying fears that the government would gain access to corporate secrets and undermine intellectual property rights by requiring companies to hand over their encryption codes.

IT and Communications Sectors Growing in OECD. Spending on Information and Communications Technology (ICT) in OECD countries rose from 6 percent of GDP in 1992 to nearly 7 percent in 1997, according to a new OECD report. ICT industries are R&D-intensive and account for more than 20 percent of total business R&D in eight major countries including the United States. Moreover, 10 of the world’s top 15 corporate R&D spenders in 1998 were in the electronics and IT hardware sectors. Patent data suggest an increase in innovative activity within ICT industries. Computers, office machinery, and electronic equipment accounted for 25 percent of U.S. industrial patents granted to OECD country inventors in 1996, up from 13 percent in 1980. ICT businesses in the United States account for about 30 percent of world ICT production. These businesses have been on an investment spree of late and now absorb two-thirds of all venture capital in the United States.

Water, Water Everywhere, Not a Drop to Drink. The world’s ability to feed itself is threatened by a water shortage, reports the World Commission on Water for the 21st Century. Currently, 1.4 billion people live without clean drinking water, and nearly 450 million people in 29 countries confront water shortage. Half the world’s rivers and lakes are seriously polluted, and other water sources are being used at an unsustainable rate. India, for example, uses twice as much water from its aquifers as is being replenished naturally, potentially leading to a loss of a quarter of its food production over the next 25 years. With the global population projected to increase by 3 billion by 2025, some 20 percent more water will be needed than is now available. As most fresh water is used for agriculture, failure to bridge this water gap may imply higher food prices and expensive food imports for water scarce countries, which are predominantly poor. The Commission emphasized technology improvements, market pricing, and raising public awareness as key solutions. *

RELEASES THIS WEEK

Consumer Price Index

****Embargoed until 8:30 a.m., Friday, March 17, 2000****

The consumer price index increased 0.5 percent in February. Excluding food and energy, consumer prices rose 0.2 percent.

Producer Price Index

The producer price index for finished goods increased 1.0 percent in February. Excluding food and energy, producer prices rose 0.3 percent.

Housing Starts

Housing starts increased 1 percent in February to 1.781 million units at an annual rate.

Industrial Production and Capacity Utilization

The Federal Reserve's index of industrial production increased 0.3 percent in February following an increase of 1.1 percent in January. Capacity utilization was unchanged at 81.7 percent.

Retail Sales

Advance estimates show that retail sales rose 1.1 percent in February following an increase of 0.4 percent in January. Excluding sales in the automotive group, retail sales rose 1.0 percent following a decrease of 0.5 percent.

MAJOR RELEASES NEXT WEEK

U.S. International Trade in Goods and Services (Tuesday)
Advance Durable Shipments and Orders (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1999	1999:2	1999:3	1999:4
Percent growth (annual rate)					
Real GDP (chain-type)	3.0	4.5	1.9	5.7	6.9
GDP chain-type price index	5.2	1.6	1.3	1.1	2.0
<u>Nonfarm business (NFB) sector:</u>					
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	N.A.	1.3	1.4	N.A.

	1970- 1993	1999	December 1999	January 2000	February 2000
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.0	4.1
Payroll employment (thousands)					
increase per month			309	384	43
increase since Jan. 1993					20823
Inflation (percent per period)					
CPI	5.8	2.7	0.2	0.2	0.5
PPI-Finished goods	5.0	3.0	0.1	0.0	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, March 17, 2000.**

FINANCIAL STATISTICS

	1998	1999	January 2000	February 2000	March 16, 2000
Dow-Jones Industrial Average	8626	10465	11281	10542	10631
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.32	5.55	5.70
10-year T-bond	5.26	5.65	6.66	6.52	6.26
Mortgage rate, 30-year fixed	6.94	7.43	8.21	8.33	8.24
Prime rate	8.35	8.00	8.50	8.73	8.75

INTERNATIONAL STATISTICS

Exchange Rates	Current level	Percent Change from	
	March 16, 2000	Week ago	Year ago
Euro (in U.S. dollars)	0.971	0.3	-11.0
Yen (per U.S. dollar)	105.6	-0.8	-10.3
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	95.53	0.1	0.7

International Comparisons ^v	Real GDP growth	Unemployment rate	CPI inflation
	(percent change last 4 quarters)	(percent)	(percent change in index last 12 months)
United States	4.5 (Q4)	4.1 (Feb)	3.2 (Feb)
Canada	4.7 (Q4)	6.8 (Jan)	2.3 (Jan)
Japan	0.0 (Q4)	4.7 (Dec)	-0.9 (Jan)
France	3.2 (Q4)	10.4 (Dec)	1.6 (Jan)
Germany	2.3 (Q4)	8.7 (Jan)	1.7 (Jan)
Italy	1.2 (Q3)	11.1 (Oct) ^z	2.2 (Jan)
United Kingdom	2.9 (Q4)	5.9 (Nov)	1.9 (Jan)

U.S. CPI data embargoed until 8:30 a.m., Friday, March 17, 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.