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THE WALL STREET JOURNAL

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

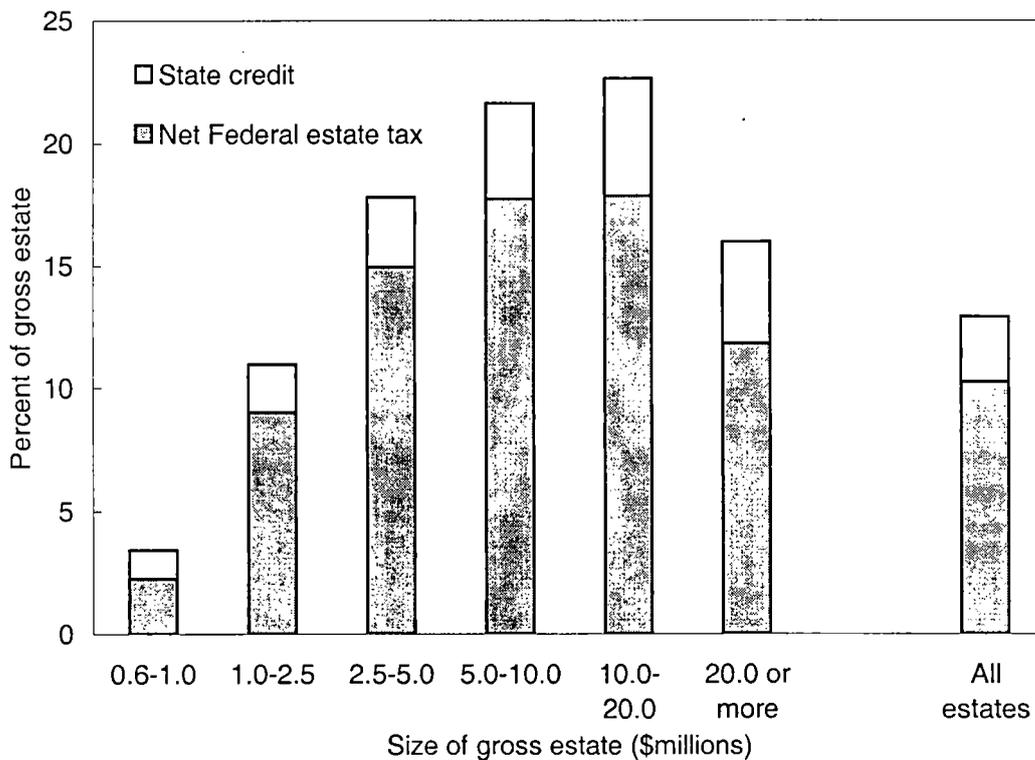
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

*copied
Baily
Podesta*

July 21, 2000

CHART OF THE WEEK

Average Tax Rate on Estates by Size of Estate, 1997



The statutory maximum tax rate on estates is 55 percent. But this is, in effect, a combined Federal-state rate, because a credit of up to 16 percent is allowed against state death taxes. Moreover, charitable contributions can be deducted, and for married couples, the entire estate can be passed on tax-free to a surviving spouse (though the estate is subject to taxes when the surviving spouse dies). As a result of these and other credits, the average tax rate on estates in 1997 was 12.9 percent, of which 2.7 percentage points were the state credit.

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SPECIAL ANALYSIS

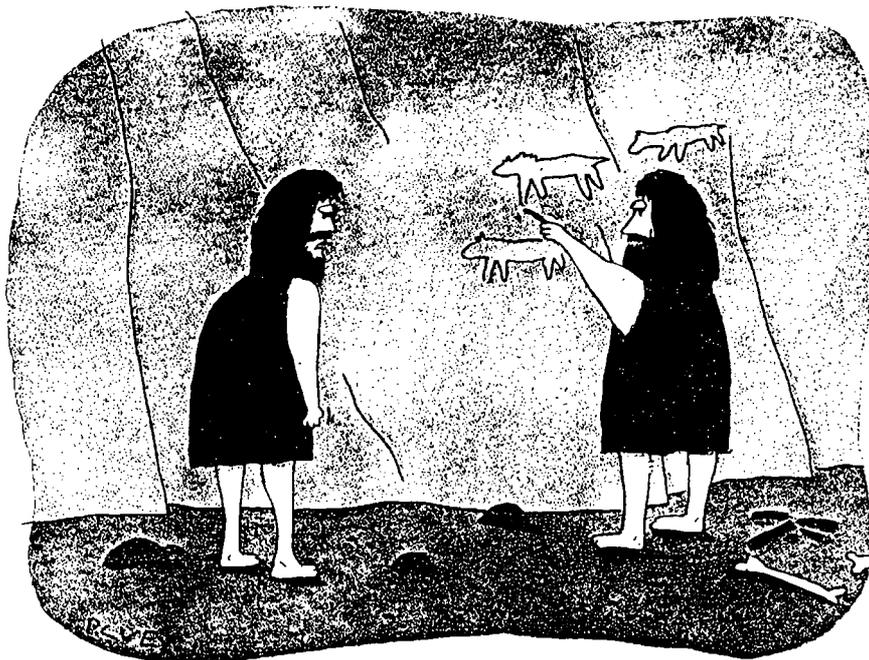
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"My doctor says you should be drawing more fruits and vegetables."

SPECIAL ANALYSIS

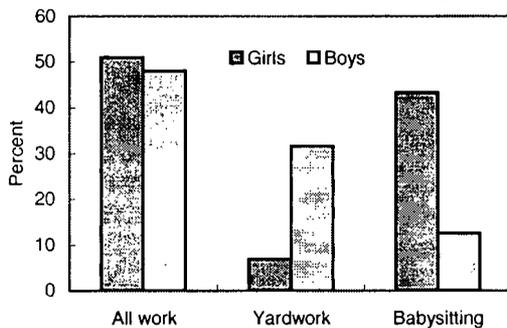
Youth in the Labor Market

Americans enter the labor force at a young age. By their 13th birthday, nearly half of American youth already have some work experience, according to a new report from the Department of Labor. At the age of 15, nearly 4 in 10 have some experience in more formal “employee jobs.”

Child labor law. U.S. labor law puts several restrictions on youth employment. Formal nonagricultural employment is unlawful before the age of 14, and the employment of 14- and 15-year-olds is subject to restrictions on occupations, total hours, and times of day. Those aged 17 and younger are banned from many potentially hazardous types of work.

Early work experiences differ for boys and girls. While similar fractions of girls and boys report some (informal) work experience before their 13th birthdays, the nature of this early work differs by gender. Girls are much more likely to

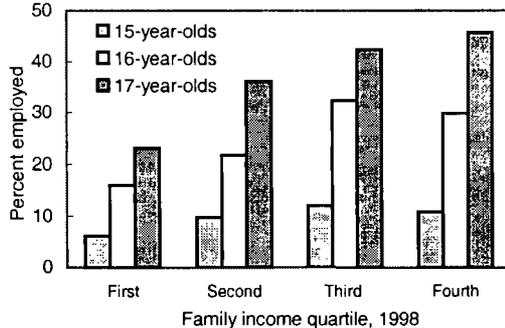
Share of Youth Who Report Work at Age 12



babysit, while boys are much more likely to do yard work (see upper chart). When they are a little older (aged 14-15), girls are slightly more likely to have any work experience, but boys are much more likely to have experience in more formal employee jobs. Boys are more likely to work at such jobs during the school year, for at least 15 hours per week and during more than half the weeks of the school year.

Occupational differences by gender. Both boys and girls who have formal jobs at the age of 14 most commonly work in the retail and service sectors. Girls most commonly work as cashiers whereas boys most commonly work as janitors and cleaners. Among 15- to 17-year-olds, food preparation and service are the most common occupations for both males and females, but the next most common

Teen Employment by Family Income and Age



occupations differ by gender: females work as cashiers, while males in this age group work as handlers and laborers.

Family characteristics. In general, the likelihood that a teenager will be employed increases with family income (see lower chart). Perhaps because of these differences by income, white teenagers are about

twice as likely to be employed as black and Hispanic teenagers. Data for 14- and 15-year-olds also show that youth in two-parent families are more likely to have work experience than those living with a single mother, and youth living without parents are least likely to have any work experience. Foreign-born youth are also less likely to have any work experience than native-born youth. Possible explanations for these patterns include differences in access to transportation, connections to job opportunities, and responsibilities at home.

Declining trends. Overall, the percentage of 15- to 17-year-olds who are employed has fallen steadily since the 1970s, for both males and females. This decrease in the proportion of teens who are employed has occurred for whites and Hispanics, but not for blacks, and especially not for black females. Declines are larger for younger ages; they have occurred in both summer months and school months; they have occurred at every level of family income; and they have occurred both among those enrolled in school and among recent high school dropouts.

Conclusion. Although the proportion has fallen since the 1970s, a large fraction of American teens acquire some work experience. While such jobs can provide a useful introduction to the workplace and inculcate good habits, research reported in an earlier *Weekly Economic Briefing* suggests that working while in school should be done in moderation to avoid possible adverse effects on academic performance.

SPECIAL ANALYSIS

Consumer Choice and Sound Nutrition

Americans' diet choices reflect a variety of economic and non-economic factors, including family income, prices, convenience, and health and nutrition. Heightened awareness of diet-health relationships and better knowledge of the nutrient content of food can lead to healthier choices, but other factors appear to be more important.

The high cost of poor eating. Although many other factors (including stress levels, genetic predisposition, activity levels, and smoking) influence an individual's risk of chronic disease, diet is certainly important. Medical evidence suggests that poor diets are often linked to the onset of chronic diseases, contributing to increased morbidity, reduced quality of life, and premature mortality. The U.S. Department of Agriculture conservatively estimates that the total economic cost attributable to diet associated with coronary heart disease, cancer, stroke, and diabetes is \$71 billion (constant 1995 dollars) per year. Medical costs account for nearly half of this total (47 percent), with premature deaths (39 percent) and lost productivity associated with morbidity (13 percent) accounting for the rest.

Consumer information. Consumers seeking to become well informed about the nutritional value of the food they buy must decide how much time and expense to devote to acquiring information. Sellers' advertising information might be relatively cheap, for example, but it may also be incomplete or biased. Generally, consumers are most likely to obtain information from sources that require little of their time (television), but to value information from other sources (such as books) more highly. Recent surveys of homemakers with children reveal that the vast majority of them are aware of health and nutrition relationships for specific nutrients. Awareness of the link between nutrients and health is particularly high for nutrients such as food energy (calories), fat, saturated fat, cholesterol, and sodium—yet people continue to consume more than recommended amounts.

Does nutrition information translate into better diets? Economic studies of nutrition information yield estimates of the relative weight of economic forces, primarily income, and individual knowledge. Evidence shows that better awareness of fat, saturated fat, and cholesterol-related health problems and better attitudes about avoiding too much fat and cholesterol are associated with significant reductions in the intakes of these nutrients. However, studies show that blacks are less likely than whites and Hispanics are less likely than non-Hispanics to be aware of diet-disease relationships. These differences between racial and ethnic groups persist even after taking socioeconomic characteristics into account. People's intakes of all fat, saturated fat, and cholesterol decrease with age, and women's intakes are lower than men's.

Rich in income, poor in diet? Although richer people have more resources to obtain greater information about diet and disease, they nevertheless consume diets richer in fats and cholesterol and poorer in fiber on average than those with lower incomes. Richer people may also tend to consider grain and cereal products to be inferior to meat products. They may also place a greater value on time and use foods that are more convenient to prepare though less nutritious than other food. Finally, meals eaten away from home increase as incomes rise, and such foods typically contain more fat and saturated fat and less calcium, fiber, and iron than home-cooked meals.

Importance for children. A mother's knowledge of nutrition has an important positive influence on preschool children's diet quality. However, this influence decreases, as children grow older. In addition, information-related racial and ethnic effects on child diet quality exist. Targeting non-white and Hispanic mothers for nutrition education is likely to increase diet quality of preschoolers. Moreover, preschool children of mothers who smoke have significantly lower diet quality, even though they are as well-informed about nutrition and diet-health links as non-smoking mothers.

Conclusion. Consumers have access to considerable information about diet and health, and evidence suggests that many incorporate this information into their food consumption choices. It is unclear, however, whether Americans are making the best choices. Consumers make different health-related decisions partly because access to and costs of acquiring health information differ. In addition, efficient use of information varies from one individual to another depending on such things as education. Evidence suggests, however, that factors like rising incomes and the demand for convenience play a larger role in many people's decisions than nutrition and health information.

ARTICLE**Macroeconomic Effects of AIDS in Developing Countries**

In addition to the human and social costs it is imposing, the HIV/AIDS crisis has adverse consequences for economic growth in developing countries, especially those in sub-Saharan Africa. A recent symposium on the economic consequences of AIDS held just before last week's thirteenth International AIDS Conference in Durban, South Africa, included a session on macroeconomic effects in which new estimates were presented for South Africa and two countries in the Caribbean.

Channels of influence. One obvious channel through which AIDS affects economic growth is by reducing the labor force and hence growth in aggregate output. Ironically, this effect alone would be expected to *increase* per capita income in standard models of economic development by raising wages. Indeed, some researchers argue that the bubonic plague in 14th century Europe had just such an effect, with population falling by a third within 15 years but real wages increasing substantially. However, AIDS operates through other channels as well, and these effects tend to reduce both total and per capita output. First, to the extent that it strikes prime-age and urban adults and does not spare the elite, AIDS may disproportionately affect those with above-average productivity. Second, the medical costs of treating AIDS may be large enough to threaten saving and investment. Third, morbidity prior to death is likely to lower worker productivity. Finally, the magnitude of the AIDS crisis is so large in some countries, that the sickness and death of some workers may induce spillover disruptions on the productivity of others.

Is AIDS an equal opportunity destroyer? Numerous studies in the late 1980s and early 1990s suggested that HIV infection in developing countries increased in line with socioeconomic status, lending support to the view that more productive workers are most likely to be affected. A study based on interviews conducted in 1991-94 in a region in Tanzania described as at the epicenter of the AIDS epidemic found that greater wealth protected people better against death from other causes but not from AIDS and that those who died from AIDS had more schooling, on average, than those who did not. The study speculates that people with higher levels of education may engage in riskier behavior than others (such as multiple sex partners without the use of condoms). A forthcoming study of 20 Latin American countries finds that HIV infection rates tend to be higher in countries with higher real GDP per capita, but the study also proposes that urbanization and labor migration are risk factors. These characteristics suggest that the groups of laborers who have migrated from subsistence farms in search of better work are also at high risk.

Empirical estimates. Because there can be a long lag between HIV infection and the most severe morbidity and mortality consequences of AIDS, the adverse effects of AIDS on economic growth build slowly. But this means that they are also already being built into economies with high rates of HIV infection, such as

Botswana with a 36 percent adult infection rate, and South Africa with a 20 percent rate.

A 1992 study provides a benchmark for the effects in sub-Saharan Africa by embedding longer-run infection and population effects into an economic growth model for 30 countries in order to estimate growth trajectories with and without AIDS over the period 1990-2025. The study found that the impact of the AIDS epidemic on growth in per capita output was sensitive to how biased the epidemic was toward more productive workers and how much of the health costs were financed out of domestic saving. Under the most plausible assumptions, AIDS was found to reduce the rate of growth of per capita GDP by about a third of a percentage point per year in the 10 countries most affected. This is a substantial impact in countries that are already struggling to escape negative growth rates.

A new study presented at the recent symposium on the estimated impact of AIDS in South Africa over the 1997-2010 period found that GDP would be 17 percent lower in 2010 as a result of AIDS, compared with a no-AIDS scenario. While some of the decline in GDP reflects a lower population, per capita GDP would be 7 percent lower. The study also estimates the impact of AIDS on an alternative measure of economic welfare—per capita output net of AIDS-related health expenditures. This measure of economic welfare is 12 percent lower by 2010 in the AIDS case compared with the no-AIDS case. A similar, but less comprehensive analysis of the impact of AIDS on Trinidad and Tobago and Jamaica found substantial drops in employment, saving, and investment, and increased HIV/AIDS expenditures associated with reduced economic growth.

Prospects for improvement. Some countries have been successful in combating AIDS. Uganda, for example, was able to lower its infection rate to around 8 percent from a peak of close to 14 percent in the early 1990s with strong prevention campaigns, including HIV testing and counseling. Similar programs in Thailand were able to alter patterns of sexual activity. National monitoring and community mobilization were successful in curbing infection rates among young men, and these rates declined steadily between 1993 and 1997. Most news concerning pharmaceutical research has been focused on vaccine development and interrupted therapy—more affordable treatments in the most stricken areas. Estimates for the cost of international prevention exceed \$3 billion annually, while aid from donor countries amounted to only \$302 million in 1998, a small percentage of total aid disbursements. Fortunately, the challenge presented at last week's conference to "break the silence" has motivated many new aid proposals that might begin to counteract this looming socioeconomic disaster.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Fed Study Says Banks Have Been Able to Profit under CRA. The Community Reinvestment Act (CRA) requires Federal regulators to assess the record of each institution covered by Federal deposit insurance in meeting the credit needs of their communities, including low- and moderate-income neighborhoods. According to a recent survey of large banks conducted by the Federal Reserve, these banks have generally been able to profit from home mortgages, home improvement loans, and small business lending to low- and moderate-income populations and neighborhoods, and from community development lending. Most banks report offering at least one special lending program, such as fee waivers, lower down-payment requirements, or pre-loan counseling—though these represent a relatively small portion of total CRA loans. The banks reported that covered mortgages were less profitable than other mortgages and had delinquency rates equal to or greater than other lending. However, they reported that covered home improvement and small business lending were about as profitable as overall home improvement and small business lending.

Consumption Amenities May Determine the Future of Cities. The view that urban density is good for production but bad for consumption (due to disamenities like crowding and crime) needs to be reevaluated, according to a recent study. With falling transportation costs and increasing firm mobility, the importance of cities for producing goods is diminishing. But people may still want to live close to one another if such density provides amenities not available in more sprawling suburbs. Empirically, the study finds that high-amenity cities have grown faster than low-amenity cities. In particular, cities with more restaurants and live performance theaters per capita have grown more quickly over the past 20 years than those with fewer. In addition, urban rents have gone up faster than urban wages in cities, suggesting that the demand for living in such cities is rising for reasons that go beyond rising wages. The rise of reverse commuting suggests a similar growing demand for city living. As people become wealthier, they are increasingly willing to pay for attractive places to live, and the cost of their time is greater. The study sees this as pointing to the coexistence of two kinds of successful cities: car cities with decentralized employment (like Los Angeles); and dense walking/public transport cities that appeal to wealthier residents (like New York, San Francisco, or Boston). Older dense cities that fail to provide amenities are likely to continue to suffer declines, according to the study.

Peer Decisions May Affect Retirement Savings Behavior. A recent study of staff at a large university examines the participation in employer-sponsored tax-deferred savings plans of librarians in different libraries and of university-wide staff grouped into expected peer groups by university department, gender, job tenure, and age. It finds decisions about whether to participate and which plans to choose are partially driven by the decisions made by peer groups. The authors suggest that these peer effects offer a rationale for encouraging the offering of such plans in the workplace, where peer effects among co-workers may encourage greater participation and greater saving.

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INTERNATIONAL ROUNDUP

Earlier Financial Reforms Aided the Philippines in 1997. The Philippines, although growing more slowly than other East Asian countries for almost three decades, weathered the Asian financial crisis better than its neighbors, according to a recent study. The difference between 1998 forecast growth and actual growth was significantly smaller for the Philippines than for other affected nations. According to the study, the country's resilience lay partly in earlier restructuring of the financial sector, first begun during the 1980s debt crisis. Relative to the rest of East Asia, banks in the Philippines retained fewer non-performing loans, required better collateral, and were less exposed to the real estate sector. The latter meant that investment was more in internationally tradable goods, and the economy could more easily adapt to a deterioration in terms of trade brought about by the devaluation of the Philippine peso. Because of the 1980s experience, the ratio of short-term debt to total debt was a relatively low 19, compared with 46 in Thailand and 67 in South Korea. The study argues that this relatively mild exposure helped limit the Philippines' contagion from other countries.

International Sustainability Reporting Guidelines Released. The Global Reporting Initiative, a joint program of the United Nations Environment Program and 16 other stakeholders, recently released its revised "Sustainability Reporting Guidelines." These guidelines lay out recommendations for companies and organizations to report on their economic, environmental, and social performance, including the relationship to regional, national, and global conditions. While the report notes that many organizations already address some set of social indicators, it argues that there is a preponderance of inconsistent reporting. The effort outlines a uniform framework for summarizing performance on such diverse issues as energy usage, greenhouse gas emissions, land use, community development, discrimination, health and safety, and human rights.

Currency Unions Contribute to Growth. By increasing trade among member countries, currency unions have a positive effect on growth, according to a new study. The authors reach this conclusion in two stages, first estimating the effect of currency unions on trade and then calculating the effects of trade on growth. The first stage, based on 41,678 bilateral trade observations from 1970 to 1995, finds that currency unions increased trade three-fold among members. The second stage, based on 210 countries from 1970 to 1990, estimated that every 1-percentage point increase in trade openness (defined as the sum of exports and imports as a share of GDP) raises the level of income by approximately 0.33 percent over 20 years. Combining these two results, the authors calculated the potential benefits to countries from entering into currency unions. This result, however, depends on whether the currency being adopted belongs to a natural trading partner. For example, if Ecuador, with 45 percent of its trade taking place with the dollar zone, were to dollarize, its total trade would increase by 91 percent, raising its long-run income level by 17 percent. By contrast, adopting the euro as its currency would only raise Ecuador's long-run income by 6 percent, since only 16 percent of its trade is done with the euro zone.

RELEASES THIS WEEK

Housing Starts

Housing starts decreased 3 percent in June to 1.554 million units at an annual rate.

U.S. International Trade in Goods and Services

The goods and services trade deficit was \$31.0 billion in May; it was \$30.5 billion in April.

Consumer Price Index

The consumer price index increased 0.6 percent in June. Excluding food and energy, consumer prices rose 0.2 percent.

MAJOR RELEASES NEXT WEEK

Consumer Confidence—The Conference Board (Tuesday)
Employment Cost Index (Thursday)
Advance Durable Shipments and Orders (Thursday)
Gross Domestic Product (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1999	1999:3	1999:4	2000:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.9	4.6	5.7	7.3	5.5
GDP chain-type price index	5.2	1.6	1.1	2.0	3.0
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.7	3.7	5.0	6.9	2.4
Real compensation per hour:					
Using CPI	1.0	1.7	2.0	0.9	0.2
Using NFB deflator	1.5	2.9	4.0	1.8	1.8
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.6	12.7	12.5	13.0
Residential investment	4.5	4.4	4.4	4.4	4.4
Exports	8.2	10.8	10.8	10.9	10.9
Imports	9.2	13.5	13.8	14.0	14.3
Personal saving	6.6	1.7	1.5	1.3	0.2
Federal surplus	-2.8	1.2	1.4	1.2	2.1
<hr/>					
	1970- 1993	1999	April 2000	May 2000	June 2000
Unemployment Rate (percent)	6.7**	4.2**	3.9	4.1	4.0
Payroll employment (thousands)					
increase per month			410	171	11
increase since Jan. 1993					22099
Inflation (percent per period)					
CPI	5.8	2.7	0.0	0.1	0.6
PPI-Finished goods	5.0	2.9	-0.3	0.0	0.6

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1998	1999	May 2000	June 2000	July 20, 2000
Dow-Jones Industrial Average	8626	10465	10580	10583	10844
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.79	5.69	6.00
10-year T-bond	5.26	5.65	6.44	6.10	6.01
Mortgage rate, 30-year fixed	6.94	7.43	8.52	8.29	8.21
Prime rate	8.35	8.00	9.24	9.50	9.50

INTERNATIONAL STATISTICS

Exchange Rates	Current level July 20, 2000	Percent Change from	
		Week ago	Year ago
Euro (in U.S. dollars)	0.929	-0.5	-10.8
Yen (per U.S. dollar)	107.9	-0.4	-9.3
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	97.90	-0.1	1.8

International Comparisons ^{1/}	Real GDP growth	Unemployment rate	CPI inflation
	(percent change last 4 quarters)	(percent)	(percent change in index last 12 months)
United States	5.1 (Q1)	4.0 (Jun)	3.7 (Jun)
Canada	4.9 (Q1)	6.6 (May)	2.4 (May)
Japan	0.7 (Q1)	4.9 (Apr)	-0.7 (May)
France	3.4 (Q1)	9.5 (Apr)	1.5 (May)
Germany	2.3 (Q1)	8.3 (May)	1.4 (May)
Italy	3.0 (Q1)	10.8 (Apr)	2.4 (May)
United Kingdom	3.0 (Q1)	5.7 (Mar)	3.1 (May)

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