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: 417709

Document Number:

Folder Title:
BE

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

THE PRESIDENT HAS SEEN
5-22-00

417709

'00 MAY 19 AM 9:07

BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

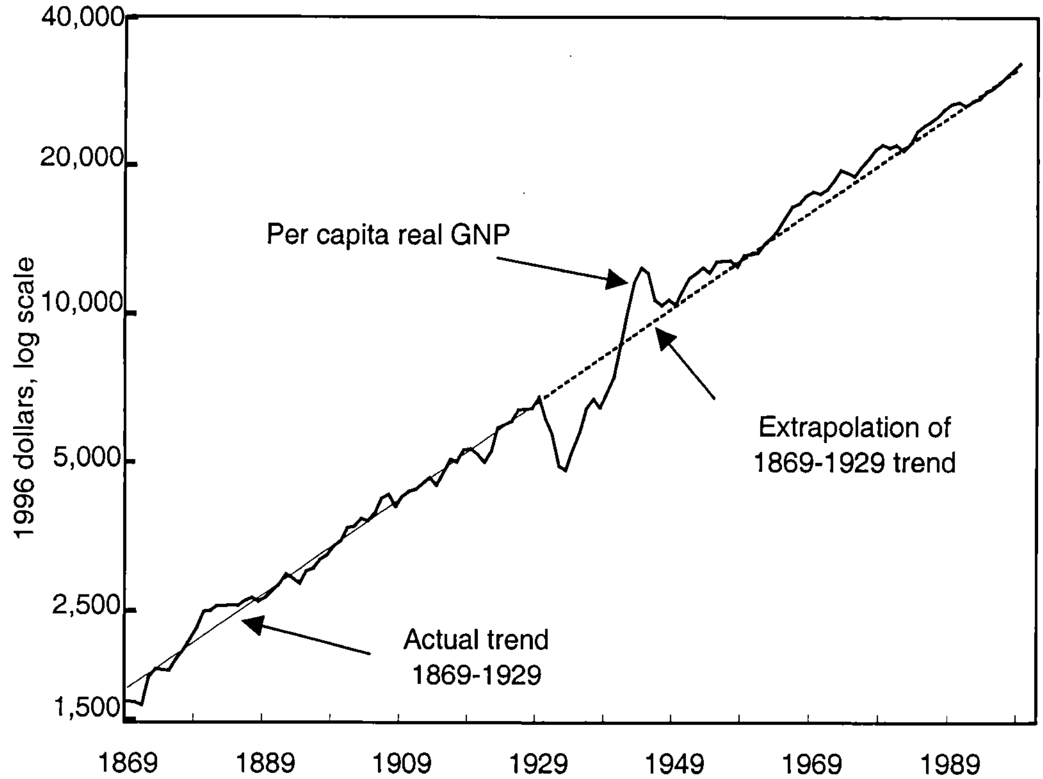
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

copied
Baily
Podesta

May 19, 2000

CHART OF THE WEEK

The Long-Run Trend in Per Capita Real GNP



The BEA recently released revised estimates of GNP going back to 1929. The long-run trend in per capita real GNP growth has been amazingly constant at 2.2 percent per year over the last 130 years. In fact, if one simply extrapolates the trend from 1869 to 1929—shown by the dashed line in the chart—the error in predicting per capita real GNP in 1999 is only 2 percent. Of course, the economy has veered off this long-run trend for extended periods, the pronounced examples being the Great Depression and World War II.

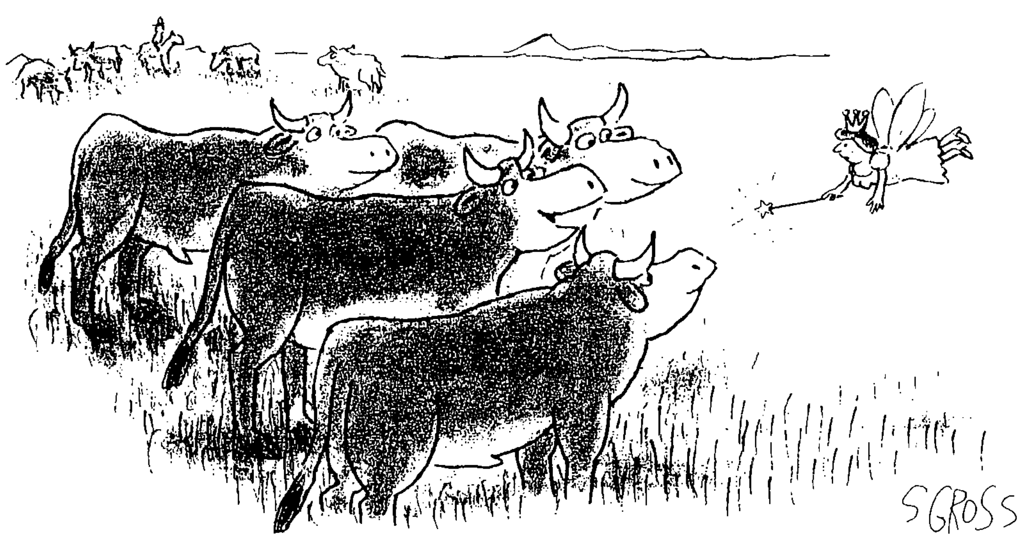
417709

CONTENTS

SPECIAL ANALYSIS

ARTICLES

DEPARTMENTS



"We would like to be genetically modified to taste like Brussels sprouts."

SPECIAL ANALYSIS

South Africa: The Employment Struggle

The South African government has taken vital steps in improving its economy, including establishing fiscal discipline and reducing import barriers, but the abysmal performance of the labor market remains the economy's Achilles heel. Without a dramatic increase in economic growth, unemployment will remain stubbornly high.

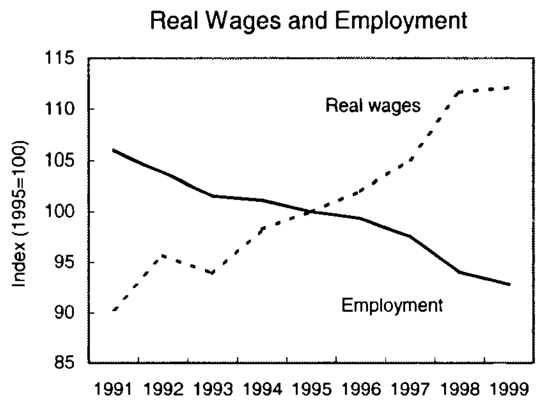
Working. Since assuming power in 1994, the African National Congress (ANC) has made progress in several dimensions. Budget policy has been disciplined. The consolidated general government deficit has been brought down from 5.6 percent of GDP in 1994/95 to 2.4 percent in 1998/99. At the same time, spending has been reoriented away from defense towards social needs such as education, health, and justice. In addition, tariff reductions have opened up the economy. Economic restructuring has boosted productivity growth, and GDP growth has averaged 2.5 percent per year—a marked contrast from the stagnation that characterized the final years of apartheid. Assuming recent problems in Zimbabwe do not have adverse effects, growth this year is expected to be between 3 and 4 percent.

Not working. But even growth rates of 4 percent are likely to be associated with higher unemployment. The South African labor force is growing at about 2.7 percent per year. This implies that if output per worker rises at 4 percent per year, as recorded between 1993 and 1998, output must grow at almost 7 percent annually simply to keep the unemployment rate from rising. But it has not done so. The result has been declining employment under ANC rule, continuing a worrying trend that has led to a 16 percent overall reduction in non-agricultural employment since 1990. The ratio of employment to population in South Africa is now just 21 percent, compared with 44 percent in Brazil and 61 percent in Mexico.

South Africa's official unemployment rate of 22 percent in 1997 understates the problem by not counting discouraged workers. An official census survey, which did count discouraged workers, placed the unemployment rate at 37 percent. As with most economic issues in South Africa, the burden has been borne along racial lines; while unemployment was a fairly modest 4.3 percent for white men, it was as high as 55 percent for black women! Even relatively more educated black South Africans with a high school diploma had unemployment rates of 50 percent. Since employment has continued to fall since 1997, today's unemployment rate is even higher.

It goes without saying that the social consequences of such unemployment levels are dire. Workers, particularly those who are young and without skills, must fend for themselves in the informal economy by scrounging a living as hawkers, receiving largesse from others, or turning to crime.

Remedies. Despite several major initiatives, the ANC has yet to find a compelling growth strategy. To grow more rapidly, South Africa clearly needs to stimulate more investment. With a domestic saving rate of about 15 percent—far lower than is common in economies with rapid growth—the government is particularly eager to attract foreign capital. But foreign investors remain leery, citing high crime rates and labor laws that add to costs.



Notwithstanding the high levels of unemployment, workers continue to receive significant increases in real wages (see chart). Labor remains militant: In 1998 there were 520 strikes and work stoppages involving 321 thousand workers. Moreover, the South African labor movement continues to call for even tougher labor market regulations and slower privatization.

A third way? A hands-off policy which depends on even higher unemployment to reduce costs is unlikely to work. Similarly, an effort to break the power of the unions is not viable (and not desirable) given the close links between the ANC and the unions that were forged on the anvil of fighting apartheid. Nonetheless, increased labor-market flexibility in both work rules and wages—particularly those for less-skilled workers—is clearly called for. The key challenge, therefore, lies in formulating a tri-partite grand bargain in which each social partner brings something to the table. One approach would have labor agree to permit increased flexibility in return for a business commitment to increase investment in skills and affirmative action, while government agrees to provide macroeconomic stimulus.

Conclusion. The reconciliation phase following apartheid has gone surprisingly smoothly. What is now needed is a much more decisive approach to labor market problems so that Africa's leading economy, which is richly endowed with human and natural resources, can realize its full potential.

ARTICLE

Competitive Effects of B2B Exchanges

Using the Internet, new Business-to-Business (B2B) electronic exchanges are being established where multiple buyers and sellers can negotiate contracts. For example, the big three automakers—Ford, GM, and Daimler-Chrysler—are planning to create a joint e-commerce exchange for automobile parts. Unlike a stock market where securities regulations govern transactions, these new exchanges are not heavily regulated. Antitrust laws still govern these businesses, however, and a reported antitrust inquiry into the automakers' operations has raised the issue of what type of oversight should be established in these new electronic marketplaces.

The growth of B2B exchanges. Many different industries are establishing Internet-based B2B exchanges for a variety of goods and services. In areas as diverse as paper, steel, aerospace, and defense, new B2B marketplaces are being announced. One major advantage of using electronic links to create these new marketplaces is that they lower the costs of reaching multiple buyers and sellers, creating deeper markets for many basic commodities. Where before specialized brokers were needed to match buyers and sellers in transactions, new websites today allow multiple buyers and sellers to find each other and enter into transactions for both commodity products and products needing more detailed specifications.

The automakers' joint venture. GM, Ford, and Daimler-Chrysler are planning to move a major portion of their procurement activity onto this new exchange. Together the three companies hope to move 60,000 suppliers and $250 billion worth of orders to the Internet and lower their supply costs. In addition to the automakers themselves, many of their suppliers may also use the site to obtain bids for items they need, adding as much as $500 billion in potential transactions to this new marketplace. Although they compete for automobile sales, each automaker would benefit from a more efficient and competitive purchasing system. GM has begun doing some electronic auctions for parts, and reports price reductions of 10 to 40 percent on some components.

Antitrust concerns. The Federal Trade Commission is said to be examining the automakers' joint venture. One potential concern is that if information on enough transactions between an automaker and its suppliers is available to competitors, that information could be used to facilitate coordination on output or pricing decisions. Paradoxically, having more information available in a concentrated industry can help a cartel raise prices. For example, airlines have long used electronic systems to convey information about airfares to consumers. These systems, however, also allow competitors to monitor each other's prices. In 1994, the Justice Department contended that major airlines used some types of information in this joint electronic fare system to increase fares and discourage discounting. A settlement with the airlines allowed them to continue to disseminate fares electronically, but prohibited some of the ancillary information that they used to communicate with each other about future prices for airline tickets.

Analysis. B2B exchanges are likely to become an increasingly important part of the supply chain in many industries. Where these exchanges enhance efficiency and lower prices, existing antitrust guidelines state that such cooperative ventures among competitors are fully consistent with the agencies' interpretations of antitrust law. Indeed, the likelihood of having a positive, efficiency enhancing outcome in the automaker case is suggested by the reaction of sellers to the new exchange. Many suppliers are concerned that their profit margins may decline due to the greater competition that these B2B exchanges are designed to promote. However, those competitive pressures should benefit consumers by holding down the cost of new cars.

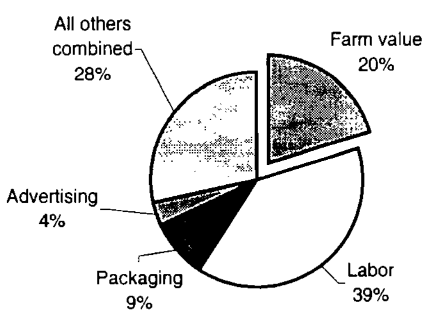
ARTICLE

Desire for Convenience Eats up Food Expenditures

Since 1980, the share of total personal consumption expenditures allocated to food in the United States has dropped from 18 percent to 13 percent, continuing a long-term trend downward. At the same time, more of America's food spending goes to convenience, both in the form of prepared foods and foods consumed away from home. This is one reason why the value of purchases from farmers is a diminishing fraction of the food dollar.

The farm value share has fallen... The USDA estimates that consumer spending on food originating on U.S. farms (including purchases at stores, restaurants, and other eating places) amounted to about $585 billion in 1998. Of that total, the farm value—the amount that U.S. farmers received—accounted for roughly 20 percent (see chart), down from about 30 percent two decades ago. The rest—what the USDA calls the marketing bill—represents all the major functions of the food industry, including processing, wholesaling, transporting, and retailing.

What a Dollar Spent for Food Paid for in 1998



...while the labor share has risen. Rising labor costs have largely replaced declining farm value. Labor costs are the largest component of the marketing bill, and they have increased from 31 percent of a food dollar in 1980 to about 39 percent in 1998. More food consumed away from home and greater demand for labor-intensive convenience foods prepared by supermarkets have likely contributed to this increase. (In fact, the USDA reports that expenditures for eating out accounted for 47 percent of total food spending in the United States in 1998, up from 39 percent in 1980.) The next largest component of the marketing bill is packaging, at about 9 percent of the food dollar. Somewhat surprisingly, advertising's share is relatively small—4 percent.

Implications. The quest for convenience is shaping consumer food expenditures. Away-from-home food expenditures are rising more rapidly than at-home food expenditures, and the farm value share of the food dollar is declining. In addition, some recent evidence suggests that greater convenience may, at times, result in poorer health. For example, when eating out, people often eat more or eat higher calorie foods and, according to the USDA, this tendency appears to be increasing.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Young Men Put Family First. Most young men highly value having a job schedule that allows for family time, with far fewer emphasizing money, power, or prestige, according to a new study. Eighty-two percent of men aged 21-39 said family time was very important, nearly the same percentage as women in that age group (85 percent). Breaking ranks with their fathers and grandfathers on the important issue of work-family integration, 71 percent of men aged 21-39 said they would give up some of their pay for more time with their families. While young men today are focusing on integrating work and family life, older generations of men tend to be more concerned with job satisfaction and status. The survey also showed that practically all young men claim to want to take an active role in raising their children.

Rural Health Woes. Residents of rural areas, in particular those not adjacent to metropolitan areas, are less likely to have health insurance or to have visited a doctor or health care professional, and are more likely to report fair or poor health. Much of these differences are probably linked to higher rates of poverty in rural areas. Only 63 percent of residents in rural counties not adjacent to urban areas had private insurance, well below the rates for residents of rural counties adjacent to urban areas (72 percent) and urban residents (75 percent). Public insurance coverage rates were higher in rural areas, but public coverage was not sufficient to overcome the private insurance gap: 22 percent of those living in rural areas not adjacent to urban areas were uninsured, compared to 18 percent of those in rural areas adjacent to urban areas and 14 percent in urban areas. Rural residents report worse health than urban residents on average, and they get less professional medical attention than their urban counterparts.

Health Insurance Tax Subsidy May be Costly. The continued rise in the number of Americans without health insurance has led to considerable interest in tax-based policies to raise the level of insurance coverage. A recent study estimates that a relatively generous tax subsidy—a refundable tax credit for health insurance spending capped at $1000 for single filers and $2000 for joint/head of household filers—would decrease the ranks of the uninsured by about 4 million, nearly 10 percent of the uninsured population. The average cost to government per newly insured person is estimated to be $3,300, which is 50 percent more than the cost of a typical non-group policy. The reason for the high cost is that most of those receiving the subsidy already have insurance. The policy would also induce a substantial shift from group to non-group insurance (the study estimates that 25 percent of those who would take the subsidy were previously covered by their employer). Moreover, almost one-half of those taking up the subsidy would be persons who are currently already purchasing non-group insurance.

INTERNATIONAL ROUNDUP

War and Uncertainty Mar Prospects for African Economic Integration. African leaders gathered in Mauritius this week to discuss the prospect of a Common Market for Eastern and Southern Africa (COMESA) Free Trade Area. The 21 member states of COMESA—with a total population of 385 million— had committed themselves in 1992 to the gradual elimination of all internal tariffs by October of this year. Nevertheless, progress remains slow and intra-COMESA trade remains paltry at $4.2 billion in 1998, compared to total foreign trade of over $60 billion, two-thirds of which are imports. A mechanism has been arranged to compensate qualifying members for the loss of government revenues associated with regional tariff removal, and COMESA is promoting numerous measures to appease protectionist sentiments that oppose exposing domestic industries to foreign competition. Wars and instability, however, continue to scar the continent and threaten progress on establishing the free trade area. More than half of COMESA members are either at war with each other or are fighting internal rebellions. Six are involved in the war in the Democratic Republic of the Congo, and Ethiopia and Eritrea last week resumed their border conflict.

College Enrollment Rising in OECD. While the United States continues to enjoy relatively high rates of university-level attainment, enrollment in other OECD countries appears to be catching up. According to new OECD data, enrollment in university-level programs grew by more than 50 percent between 1990 and 1997 in eight countries and by more than 20 percent in all but five OECD countries. At today's enrollment rates, 40 percent of young people in the OECD will enter bachelor degree or higher programs at some point in their lives, nearly equal to the 44 percent enrollment rate in the United States. While the percentage of students who enter these programs is increasing, not everyone completes a degree. On average, one-third of university-level entrants in the OECD drop out (the drop-out rate in the United States was 37 percent). The United States is one of the few countries where the private sector participates significantly in funding college and university education: 49 percent of funds for tertiary institutions come from private sources, more than twice the OECD average of 23 percent.

Developing Countries to Receive Free Genetically Modified Rice. The inventors of rice genetically modified to combat Vitamin A deficiency have struck a deal with the pharmaceutical company AstraZeneca that will give farmers in developing countries free access to the grain. This "golden rice" is a genetically altered grain fortified with beta-carotene that converts to Vitamin A. Vitamin A deficiency afflicts an estimated 124 million people worldwide and results in the deaths of up to 2 million children each year. Under the new agreement, the rice will be distributed free to national and international research organizations in developing countries. Local farmers will be permitted to earn up to $10,000 annually growing this rice, without paying royalties. AstraZeneca will market the rice in developed nations for profit. The company said that the earliest date of availability for local planting and consumption would be 2003.

RELEASES THIS WEEK

U.S. International Trade in Goods and Services
****Embargoed until 8:30 a.m., Friday, May 19, 2000****

The goods and services trade deficit was $30.2 billion in March; the deficit was $28.7 billion in February.

Consumer Price Index

The consumer price index was unchanged in April. Excluding food and energy, consumer prices rose 0.2 percent.

Housing Starts

Housing starts rose 3 percent in April to 1.663 million units at an annual rate.

Industrial Production and Capacity Utilization

The Federal Reserve's index of industrial production rose 0.9 percent in April. Capacity utilization rose 0.4 percentage point to 82.1 percent.

MAJOR RELEASES NEXT WEEK

Gross Domestic Product (Thursday)
Advance Durable Shipments and Orders (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	5.4
GDP chain-type price index	5.2	1.6	1.1	2.0	2.7
Nonfarm business (NFB) sector:					
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	0.3
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	12.9
Residential investment	4.5	4.4	4.4	4.4	4.4
Exports	8.2	10.8	10.8	10.9	10.8
Imports	9.2	13.5	13.8	14.0	14.2
Personal saving	6.6	1.7	1.5	1.3	0.5
Federal surplus	-2.8	1.2	1.4	1.2	N.A.

	1970-1993	1999	February 2000	March 2000	April 2000
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.1	3.9
Payroll employment (thousands)					
increase per month			27	458	340
increase since Jan. 1993					21615
Inflation (percent per period)					
CPI	5.8	2.7	0.5	0.7	**0.0**
PPI-Finished goods	5.0	2.9	1.0	1.0	-0.3

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1998	1999	March 2000	April 2000	May 18, 2000
Dow-Jones Industrial Average	8626	10465	10483	10944	10777
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.69	5.66	5.75
10-year T-bond	5.26	5.65	6.26	5.99	6.56
Mortgage rate, 30-year fixed	6.94	7.43	8.24	8.15	8.64
Prime rate	8.35	8.00	8.83	9.00	9.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level**	**Percent Change from**	
	May 18, 2000	**Week ago**	**Year ago**
Euro (in U.S. dollars)	0.895	-0.8	-16.1
Yen (per U.S. dollar)	108.7	0.2	-11.8
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	100.1	0.7	5.0

International Comparisons [1]	**Real GDP growth** (percent change last 4 quarters)	**Unemployment rate** (percent)	**CPI inflation** (percent change in index last 12 months)
United States	5.0 (Q1)	3.9 (Apr)	3.0 (Apr)
Canada	4.7 (Q4)	6.8 (Mar)	3.0 (Mar)
Japan	0.0 (Q4)	5.0 (Mar)	-0.5 (Mar)
France	3.1 (Q4)	9.8 (Mar)	1.5 (Mar)
Germany	2.3 (Q4)	8.4 (Mar)	1.9 (Mar)
Italy	2.1 (Q4)	11.3 (Jan)	2.5 (Mar)
United Kingdom	3.0 (Q4)	5.9 (Jan) [2]	2.6 (Mar)

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.