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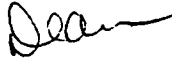
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THE WHITE HOUSE

WASHINGTON

September 16, 1992

MEMORANDUM FOR THE EMPOWERMENT BREAKFAST GROUP

FROM: DEAN SCHULTHEISS 
SUBJECT: Upcoming Breakfasts

We now have assembled a schedule of speakers for the next several weeks. Please mark your calendars for the breakfasts you plan on attending. If you could, please call me each Thursday on 456-2471 and let me know if you plan to be with us that Friday so that I can get a headcount for the Mess.

Our speakers for the next several weeks are as follows:

- Sep. 18 Lawrence Kudlow
Former Economic Advisor to OMB Director David Stockman; Chief Economist; Bear, Stearns and Company
- Sep. 25 Terry Eastland
*Resident; Ethics and Public Policy Center
Author of "Energy in the Executive: The Case for the Strong Presidency"*
- Oct. 2 Dr. Constantine Menges
*Research Professor of International Relations
Director, Programs on Transitions to Democracy;
George Washington University*
- Oct. 9 Alice Rivlin
Senior Fellow; Brookings Institution

Attached are two recent articles by Mr. Kudlow to prime you for this Friday's breakfast. Also attached is a review of Mr. Eastland's book, upon which he will base his discussion on Presidential leadership.

Remember also that we are once again meeting in the Ward Room on the ground level of the West Wing -- do not go to room 22. Those of you without Mess accounts should reimburse Diana Furchtgott-Roth as your meals will be billed to her account.

Focus on Growth, Not Short Rates



By LAWRENCE A. KUDLOW 6/1/1

PRESIDENT BUSH may be right about the need for lower interest rates, but jawboning the Federal Reserve as he did last week could actually undermine his goal of more rapid economic growth. The public needs pro-growth fiscal policies from the President much more than another small decline in short-term interest rates. The Fed has already tamed inflation. Giving in to political pressure now could jeopardize this achievement and the recovery as well.

Understanding why requires a look at how short-term and long-term interest rates have been heading in opposite directions. The President asked the Fed to lower short-term rates, which it can control by adding or draining the money banks hold as reserves. Short-term rates have fallen by 4 percentage points over the past 20 months to below 4 percent, or near their 30-year lows.

But long-term rates have risen about three-

Lawrence A. Kudlow, a former economic adviser to President Reagan, is chief economist at Bear, Stearns & Company.

tenths of 1 percentage point since January. These rates, reflecting investors' expectations of inflation, have a more powerful influence on the economy. They have remained stubbornly high, near 8 percent, slowing the recovery in business investment and housing.

Paradoxically, if the Fed pushes short rates down too far, creating an overdose of new money, then long-term rates would actually rise from renewed inflation fears. This is a risk the President ought to consider, for another spike in long-term rates might well abort a recovery that is already slower than usual.

Lower short-term rates would also reduce global demand for dollars, as investors buy other currencies offering higher returns. The dollar's purchasing power and hence the inflation outlook depend on the willingness of people to hold it. If no one wants it, its value plummets, causing prices and interest rates to rise. The exchange rate has already fallen by 13 percent over the past year, an inflationary omen.

Some of the President's advisers are probably telling him that the money supply is growing too slowly. M2, the most closely watched indicator, which includes most bank deposits and money-market funds, has risen by less than 2 percent over the past 12 months. But other money supply and bank reserve measures indicate growth rates of 8 percent to 16 percent.

If the President were communicating more closely with the Federal Reserve board, he would know that Greenspan & Co. have developed a new approach to balancing money supply and demand. They use inflation-sensitive market indicators — including such commodity indexes as the price of gold — to determine whether the balance is deflationary, inflationary or just right.

Their approach makes plenty of sense. In our global, high-speed markets, prices immediately change to reflect all the available information. Every nanosecond, the world market price of gold

An overdose of new money could renew inflation fears and lead to higher long-term rates.

contains more information and wisdom than all the computer models used by the Council of Economic Advisers.

In the past two years, Fed policies have stabilized the gold price in a narrow band around \$350 an ounce, while broader commodity indexes have also remained steady. These indicators confirm the Fed's progress against inflation.

The producer price index has increased by only 1.1 percent over the past 12 months, the consumer price index by 3 percent. Only two years ago, these inflation measures were at 6.5 percent to 7 percent.

BY politicizing election-year monetary policy, the President may well create more uncertainty, keeping long-term rates sticky despite the progress on inflation. If he truly wants to improve the prospects for growth, he should endorse the Fed's Bretton Woods-style effort to restrain inflation and make the dollar as good as gold.

Then he should pursue his own growth program, with enterprise zones, a reduction in the capital gains tax, a spending freeze and a middle-income tax cut. These measures could take the economy from about 2.5 percent growth now to 3.5 or 4 percent next year without renewed inflation. This would be a winning economic policy for the Bush Administration in November.

Back to Bretton Woods

By LAWRENCE A. KUDLOW

What is truly remarkable about the 3 1/4% Fed discount rate is the near \$350 an ounce gold price that now accompanies it. In other words, after six discount rate cuts and a 575 basis point drop in the federal funds rate over the past three years, commodity prices are stable. Gold in particular is down by \$86 from its 1988 price.

True, the dollar exchange rate has lost ground, but that is principally a function of overly tight money in Japan and in Europe, especially Germany. But more important, none of the dollar-based market price indicators are flashing signs of rising inflation expectations. Meanwhile the demand for U.S. money and financial assets remains strong, despite the decline in 10-year Treasury to 6.8%. The stock market is once again breaking records.

Lovely Thoughts

All of which raises some lovely thoughts about the serious possibility that Greenspan and Co. are in fact running a Bretton Woods style monetary policy anchored by a steady gold price of roughly 10 times the old \$35 an ounce gold exchange rate.

Just to reminisce, the golden age of Bretton Woods, from 1950 to 1966, generated, nominal gross domestic product growth of 6% and real growth of 3.6%. Three-month Treasury bills averaged 3% interest rates, and 10-year Treasury bonds averaged 4%. For comparison, over the past four years, nominal GDP growth has declined from roughly 8% to near 4%, the inflation rate has eased from around 5% to less than 3%, the interest rate on three-month Treasury bills has fallen from more than 9% to 3.7%, and the rate on 10-year Treasury bonds has slipped from 9.25% to 6.8%.

This cannot be a coincidence. It seems overwhelmingly likely that the Greenspan Federal Reserve is deliberately trying to bring about 1950s-style low inflation.

At 3.8%, three-month Treasury bills stand at 26-year lows. At 6.8%, 10-year Treasury notes are at their lowest point since 1973. Very possibly, if the Fed clearly announced to the public its commodity price-rule strategy, long-bond yields would be much lower today. Then again, the long end of the bond market probably wants to see more evidence that price stability is sustainable. But the evidence on gold and

money strongly suggests that the Fed intends to stay the course. Two percent inflation, along with commodity price stability, is in effect a zero inflation rate. This argues that bond yields can decline significantly more over time.

The consequences of this revolution in monetary policy are enormously positive. Low inflation and declining interest rates are producing significantly reduced interest burdens. Residential housing and other fixed-asset values are stabilizing. Real household net worth is recovering.

The purchasing power of household and business income will be substantially im-

proved. So will the quality of corporate earnings. The entire cost structure of the U.S. economy has been dramatically reduced, thereby increasing American competitiveness in the global marketplace.

In short, Greenspan and Co. have delivered the monetary equivalent of a sizeable tax cut, which not only improves prospects for next year, but for the long run as well. All this has been missed by the pessimistic chorus of economists, pundits and talking heads on television. But it's a key factor nonetheless. Actually, it's the invisible hand of the next economic recovery.

The evidence on gold and money strongly suggests that the Fed intends to stay the course. This argues that bond yields can decline significantly more.

proven. Why? Two reasons. First, low inflation and low interest rates. Second, a low effective tax rate on real (inflation-adjusted) capital gains, which is the key tax incentive required to promote the risk-taking, innovation and enterprise necessary for long-run economic expansion.

With a 25% average tax-rate on nominal capital gains, and a 44% average on real capital gains, the 1950-1966 Bretton Woods period produced 4.2% average annual real GDP growth, with 2.3% inflation and 10.2% annualized growth in the Standard & Poor's 500 stock-index after inflation. However, over the next 15 years major fiscal and monetary mistakes drove up the nominal capital gains tax-rate to an average of 37.6%, cheap money created 7% inflation, and the tax rate on real capital gains skyrocketed to 129%. As a result, the economy experienced prolonged stagflation and the S&P average declined by 7% per year after inflation.

Not until the supply-side reforms of the 1980s did economic growth, inflation and the stock market return to their old levels. By lowering tax rates on income and capital gains, along with movement toward a gold-backed dollar, 4% annual economic growth was restored, with 3% inflation and 20% annual real stock market gains.

But the 1986 tax bill began a new fiscal policy direction that halted this progress. Over the four years from 1987 to 1991,

higher tax rates on capital investment, personal income and payroll wages, as well as longer depreciation schedules and increases in numerous business and real estate taxes, along with a host of new regulatory cost burdens, and a dose of mid-1980s cheap money flattened the stock market. The economy lapsed back into stagflation.

In particular, the effective tax rate on real capital gains jumped back up to average 65.5%, putting an end to the rise of national wealth creation, new business starts and new jobs. Since the end of 1988, when the full force of these tax changes took effect, annual real GDP growth has slumped to 0.6%, new business formation has fallen by 7.7% and employment growth has slowed to 0.2% per year. The after-inflation S&P 500 index has only just reattained its August 1987 level.

At this point, both Congress and the Bush administration would do well to heed the recent advice of Fed Chairman Alan Greenspan. From the man who has restored low inflation and declining interest rates through a gold-backed dollar comes this counsel: Reject quick-fixes such as temporary tax rebates. Instead, restore a low capital gains tax rate to generate improved economic growth, capital formation and productivity.

What Normality Means

Mr. Greenspan grew up professionally at the height of the Bretton Woods period. That period has remained his basic economic yardstick. Normality should mean 4% real growth, 2% inflation and a strong wealth-creating stock market. Normality should also include the lowest possible tax rates on capital and labor.

With an improved 1992 tax policy, the Bretton Woods baseline can be replicated and the U.S. economy can recapture its long-term potential to grow. With 10% yearly real gains, the Dow would be roughly 3400 in 1992, 3800 in 1993, 4300 in 1994 and 4800 in 1995. New business starts, jobs and wealth creation would explode. Budget deficits would evaporate. Think of it. And have a very happy New Year.

Mr. Kudlow is chief economist at Bear, Stearns in New York.

More Power for the President?

ENERGY IN THE EXECUTIVE

The Case for the Strong Presidency.

By Terry Eastland.

392 pp. New York: The Free Press. \$22.95.

By Philip B. Kurland

TERRY EASTLAND, who was the director of public affairs in the Justice Department from 1985 to 1988, has written what is essentially a brief for the expansion of the powers of the American Presidency. The strength of his argument derives from an ambiguity in the Constitution.

Division of power among the legislative, executive and judicial branches was one of the principal means used by the framers to avoid a tyranny of Government functionaries over the people. But the founders did not draw hard and fast lines in dividing power among the three branches of the national Government, or between the national Government and the states. They were too wise to believe that they could conjure up formulas that would be appropriate guides for all times and in all places.

This lack of specificity, however, is also the weakness of "Energy in the Executive." For Mr. Eastland's case in favor of a strong executive, one that would dominate even more than it now does, rests on that chimera of constitutional theory labeled "original intent." Actually, there is as much (or as little) evidence to support the contention that the fathers of the Constitution would have chosen primacy of place for the legislative branch as there is for the executive branch.

Philip B. Kurland is the William R. Kenan Jr. Distinguished Service Professor Emeritus at the University of Chicago and the author of "Watergate and the Constitution."

What is clear is that the Constitution was framed in the hope and expectation that all branches would ultimately be subject to the control of the people, and that no branch would be unrestrained by the other two.

Justice Oliver Wendell Holmes decried the notion that we should try to look to the expressions of the founding fathers for the answers to difficult questions of constitutional meaning. In 1920, in *Missouri v. Holland*, he wrote: "When we are dealing with words that also are a constituent act, like the Constitution of the United States, we must realize that they have called into life a being the developments of which could not have been foreseen completely by the most gifted of its begetters. It was enough for them to realize or to hope that they had created an organism; it has taken a century and has cost their successors much sweat and blood to prove that they have created a nation. The case before us must be considered in the light of our whole experience and not merely in that of what was said a hundred years ago."

The more compelling, and at the same time more frightening, argument that this book makes for a stronger executive is the need for more effective — Mr.

Mr. Eastland's case in favor of a strong Presidency rests on that chimera of constitutional theory labeled 'original intent.'

Eastland prefers the word "efficient" — government. The author claims that Presidents have not exerted their full constitutional powers, either legislatively or administratively. But perhaps, Mr. Eastland to the contrary notwithstanding, we should regret, not applaud, the Presidentially sponsored excursions that have taken our military forces from Vietnam to the Persian Gulf. And maybe the President has gotten too much, not too little, of his way in judicial appointments. Meanwhile, this century's strong executives, whether in central Europe, Russia or the Far East, do not suggest that such governments have much concern for the liberties of the people.

That does not seem to be a major worry of Mr. Eastland. Nevertheless, I would suggest that freedom for the people was one "original intent" of the founders for which there is ample historical support. I am not sure that "Energy in the Executive" is consistent with that goal.

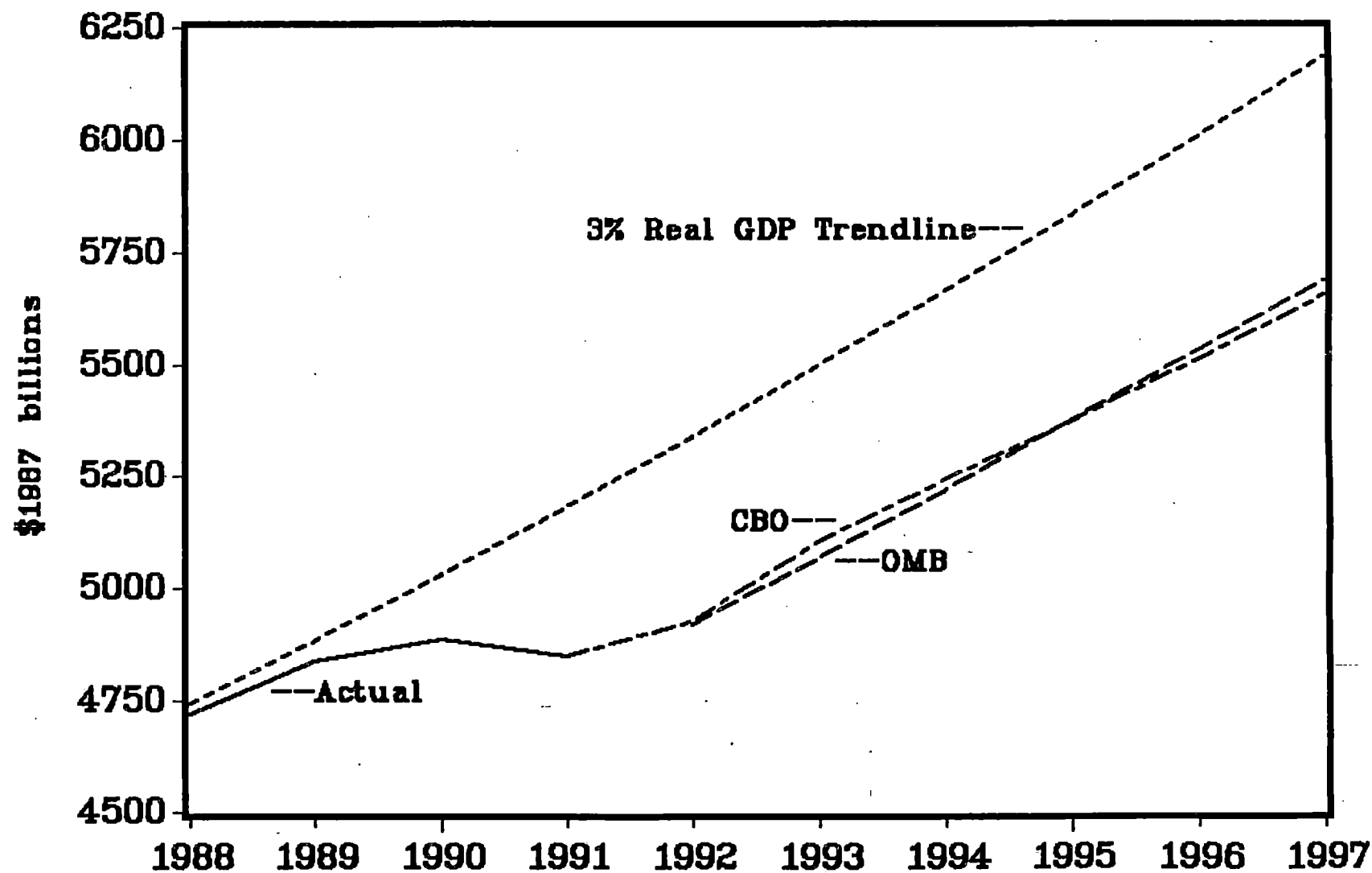
Though Mr. Eastland is benign, he is clearly committed to the concentration of Government authority — a concentration that has tended to grow geometrically each generation since World War II — for the sake of efficiency in the Presidency. Unfortunately, he does not offer a balance sheet of costs.

That very wise jurist Learned Hand once told us: "Trial and error is the confession, not indeed of an impotent, but of a wayward, creature, blundering about in worlds not realized. But the Absolute is mute: no tables from Sinai to guide him; the brazen sky gives no answers to his prayers. . . . Beware then of the heathen gods; have no confidence in principles that come to us in the trappings of the eternal. Meet them with gentle irony, friendly skepticism and an open soul."

One cannot gainsay Mr. Eastland's motives for a better nation through more efficient government by way of concentrated power. Yet history and experience suggest he is a dreamer. We decided against a benevolent despot in 1776. □

GROWTH DEFICITS

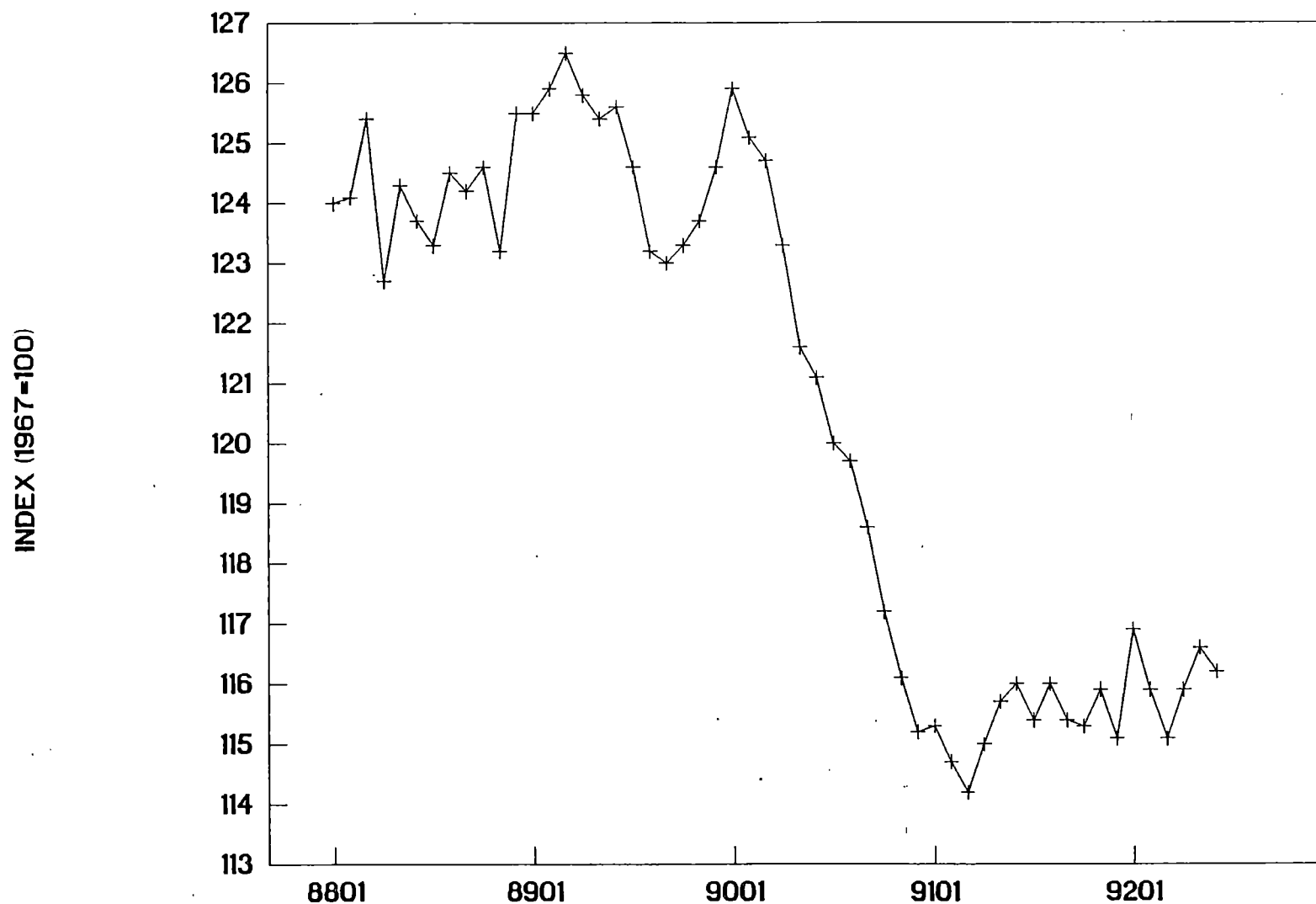
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Source: Dept. of Commerce, OMB, CBO & Bear Stearns

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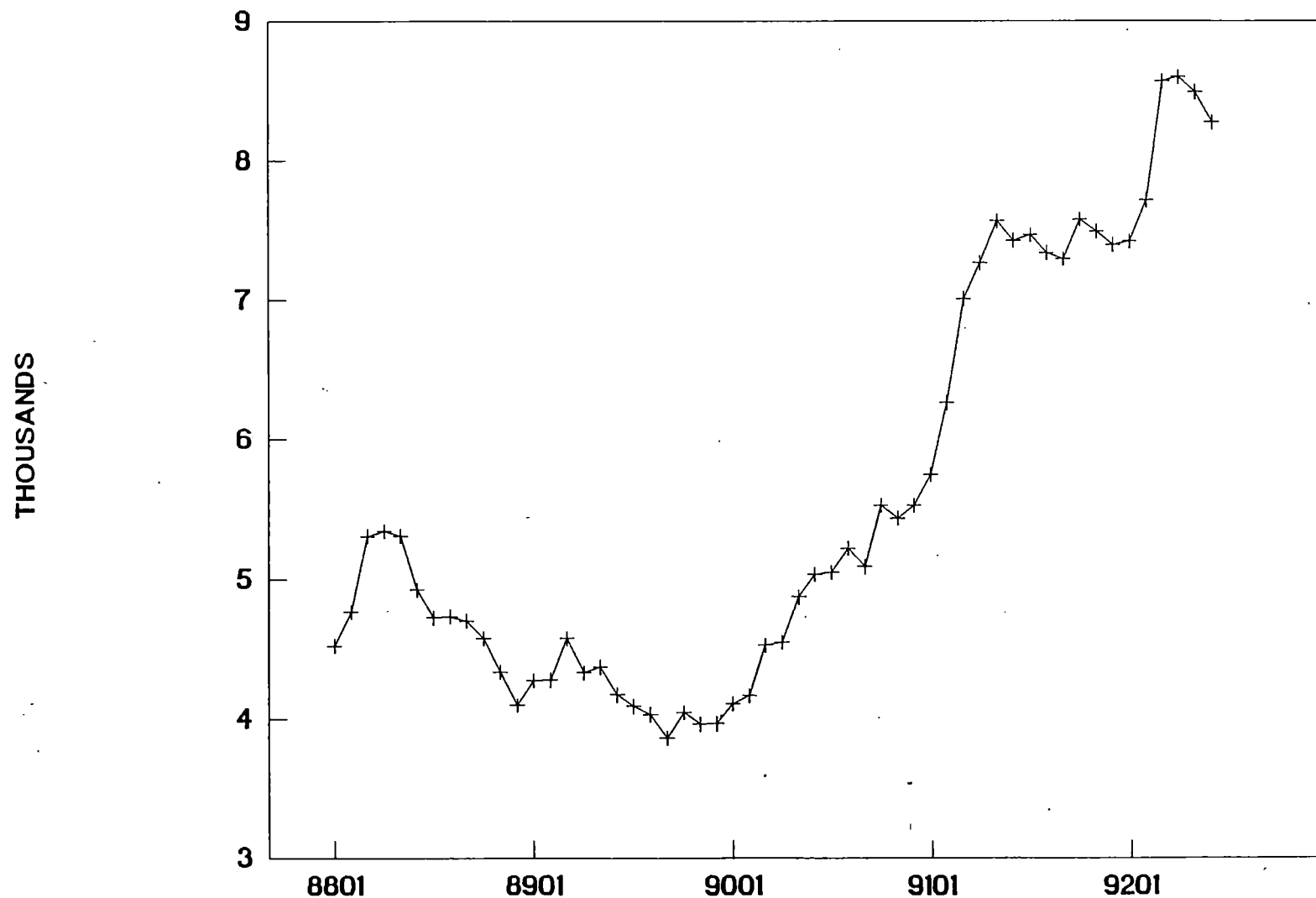
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SOURCE: BEA

BUSINESS FAILURES

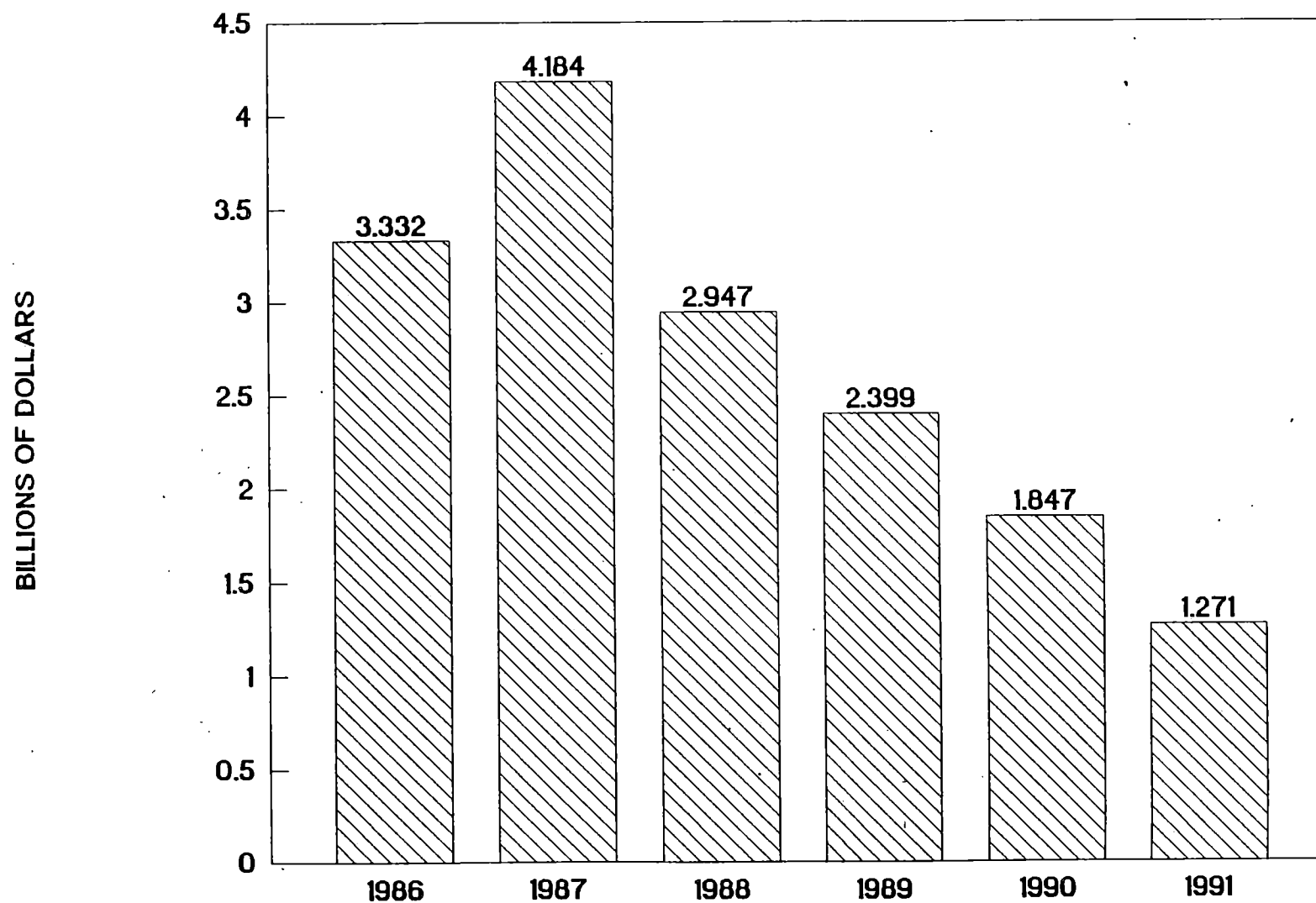
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SOURCE: DUN & BRADSTREET

VENTURE CAPITAL COMMITMENTS

EXCLUDING FUNDS OF FUNDS



SOURCE: VENTURE CAPITAL ECONOMICS

THE WHITE HOUSE

Office of the Press Secretary
(Detroit, Michigan)

For Immediate Release

September 10, 1992

REMARKS BY THE PRESIDENT
IN QUESTION AND ANSWER SESSION WITH
THE DETROIT ECONOMIC CLUB

Cobo Hall
Detroit, Michigan

1:40 P.M. EDT

Q The first question deals with the Democratic Congress. Maintenance of the Democratically-controlled Congress is highly probable. How do you propose working with them more effectively with them over the next four years?

THE PRESIDENT: Well, I answered that partially in my comments. Because of -- not only because of the post office scandal and the bank scandal, there's going to be an enormous change. I've felt that I've had some difficulties with confidence in America, but Congress has really had problems. And the Congress is in a state of change and flux, particularly in the House of Representatives.

So what I've proposed is that when Congress meets, the new one, I will get together with all 100 or 150 members and say, look, you and I have been listening to the same song, the same American people. They want the kind of changes that I've outlined here today. And I believe most Americans really do. And I'll say, now let's get together, lay aside partisanship and let's, in the first 100 days, enact this agenda.

I'm going to have to move fast, but with a new Congress I think we'll have something entirely different than the gridlocked Congress that I've been facing. I really believe that there's going to be that much change. You've already seen it. You've already seen it happening in many of these primaries, and it's still going on.

Q This speech was billed as an economic agenda. Why now, in the last 60 days of the campaign? Why not before?

THE PRESIDENT: Well, as you may know, I've addressed myself to many of the components of this agenda -- health care, several times taking that case to the American people; America 2000, our education program; fighting for our anticrime legislation. So what we've tried to do here today is bring all the elements together that come under this outline I put forward; bring them all together in a comprehensive way.

The most significant thing we tried -- that I've tried to do is to say, it's one global economy. We are in this now together -- linking international trade to opportunity for the American worker. Linking international trade and global peace and security to prosperity for every American job holder. And it's that concept, that very broad concept that I think is somewhat different in the presentation today because ingrained in a lot of this are the very same programs, like enterprise zones and these others I've clicked off, that I think are absolutely essential; say nothing of the philosophical difference I have with Governor Clinton -- tax and spend versus trying to get the taxing and spending down and get that 24 percent of gross domestic product out of the government's hand, get it down to 20 percent or get it lower.

MORE

And so it's trying to put a comprehensive plan out there that encompasses many of the ingredients we've been talking about.

Q Last month Governor Clinton was asked about CAFE standards. He said he'd be flexible. What is your position?

THE PRESIDENT: Well, I'm not flexible. So we've got a difference. He has proposed, as I understand it, in his plan that the CAFE standards go to 40 -- I believe it's 40 miles per gallon. There's a wealth of opinion that says that would be devastating to the automobile business. And in the name of environment, "Vice President Gore" has been talking about the combustion engine as being the worst threat to society -- I've got to be careful with how I quote him, but look it up in his best-selling book. It is scary. It is bad.

And Governor Clinton ought to repudiate him or certainly ought to clarify his position. He told some business executives that he was studying the National Academy of Sciences report. I'm told it's a big, fat thing about this, with a square root and all these things through it. So when he gets through reading that, maybe he can take a position on the NAFTA agreement, which he hasn't read either.

But I'm saying that we don't need to go to the extreme. My administration has a good, sound environmental record. But when I went down to Brazil, people of the environmental community, some of them, jumped all over me and said I wasn't leading. Well, let me be very clear, I am not going to go adopt standards, whether it's a CAFE standard of this or whether it's a strange policy regarding an owl, that throw a lot of Americans out of work. And we might as well understand that. (Applause.)

And yet we have sound environmental record. I'm not apologetic about it at all.

Q Why do you hate us trial lawyers so?
(Laughter.)

THE PRESIDENT: I might have to hedge if I'd known you were one. (Laughter.)

Q There's an editorial here: "We don't destroy wealth, we just move it around." (Laughter.)

THE PRESIDENT: It's not a question of hating anybody, it's a question that I think the American people understand. When I went to a small town in Idaho, I was expecting to get all kinds of questions on nuclear energy or on wilderness areas. And the community people, the business people, Chamber of Commerce people, the main subject on their minds were these frivolous lawsuits. When I look at health care, and I see malpractice insurance estimated to cost between \$25 billion to \$50 billion a year because of tests that doctors have to give to protect themselves against outrageous suits, I just think we've gone too far and that we ought to control some of these liability -- (applause) -- some of the tort claims, some of these reckless suits. (Applause.)

And I have here a distinct -- far be it from me to inject a partisan note into this wonderfully nonpartisan audience -- (laughter) -- but I have a real difference with Governor Clinton on this one. The trial lawyers of Arkansas put out a letter saying that he's been with him on everything they've ever asked, and don't worry, just go in for the Governor so he'll protect against legislation that would try to put some caps on these outrageous suits. We've got a chance right now in the Senate -- the Kasten bill is coming up of product liability. And

MORE

we've got to continue to fight to get through that gridlock up there in the Congress some legislation that would at least lower the burden on the American people, the doctors, whatever it is in terms of too many lawsuits.

Q How realistic is it to double the size of our economy by the early years of the next century?

THE PRESIDENT: It's realistic when you consider that if you use inflation plus real growth, that is not too heightened a goal. We can do that. And you've got to do the math on it, but you're talking about seven percent, I think. And I believe we can do that. We've had anemic real growth. I'm convinced it is not going to remain anemic in the less than two percent area. Coming out of the last recession it got up to five percent.

And so I think the goal is very much achievable. I might say, I don't want to achieve it by raising inflation, however. I want to get it achieved by real growth. I mean, you can run inflationary policies and grow. So I want to be very careful when I say, one, it's achievable; but, two, I want to achieve it with real growth not with inflationary growth.

Q What do you say to the American workers who believe that free trade means jobs lost abroad?

THE PRESIDENT: Well, again, I tried to address myself to that one. I think that it means jobs increased in this country. Our trade with Mexico has gone way, way up without this free trade agreement. And in my view, it will go up a lot further, and that means American jobs.

We've got experts on the auto industry here, but I am convinced that they are not going to export their factories to Mexico. There are a lot of considerations. One of them is the productivity of the American worker. Another one is interest rates. Another one is capacity, available capacity, in whatever industry we're talking about.

You're going to raise the environmental standards in Mexico. And I think you're going to cut down on the cross-border flow of illegals that I think is burdening a lot of our country, particularly California. And I believe in my heart of hearts that what we're going to do is see a massive expansion into that booming market in Mexico. And it's already happened in Canada. Our trade with Canada, our largest trading partner, as everyone here knows better than I, has gone way, way up.

And I'm convinced the same thing would happen for American agriculture products -- not only with Mexico, but when we get a finalized agreement with the GATT. Now, that GATT Round is on hold until after the French vote on Maastricht. But we're going to keep pushing on it. It has nothing to do with American politics.

I went up there realizing that the unions would take a shot at me on finalizing NAFTA right now when we did, getting an agreement that we can at least get before the Congress. It transcends domestic politics for me. I am so convinced that it will increase markets and increase jobs that I don't have to equivocate, I don't have to hedge, I don't have to read the National Academy of Sciences studies or whoever's doing it. I know enough about it from being briefed by a very able Ambassador Carla Hills to recommend to the American people that we approve NAFTA and approve it just as soon as we possibly can. (Applause.)

Q There are a couple more. In black American newspapers across the country, black Republicans are labeled Uncle Toms, opportunists and lapdogs for white Republicans. Do you have words of encouragement for black Republicans under

attack? For black Americans who are Republican, the agenda's the same as for any American. Why can't black Republicans desire the American Dream as not the same dream for all Americans? Please comment.

THE PRESIDENT: He just answered my question. You should be able to have the American Dream. And I would ask black voters across this country -- a good podium right here to do it -- how well have you done under the Democratic Party? Are you going to let people take your vote for granted -- promise and forget, promise and forget; or are you going to try to go with something that's going to give people an enterprise zone so you can bring jobs into the inner city? Do you favor the old way of doing it in housing, where government built these big tenements that then go downhill real fast, or do you want a shot at the American Dream and owning your own home?

We've got good programs that offer hope and opportunity to black America, to minority Americans wherever they're coming from. And I want to see them enacted. And so I would say to black Americans, I know it may be tough in your communities, but you're leaders. You're willing to stand up for principle. And don't blacks care about tough anticrime legislation? Aren't their neighborhoods the ones that are impacted and sometimes the worst because of street crime? Don't we owe them strong anticrime legislation that backs our police officers and doesn't leave them neglected? Don't they have a stake in world peace? Can't a black Republican stand up in his community and say, I'm delighted that my kid goes to bed at night without the fear of nuclear war that we had before?

We've got a good agenda. And I'd like to see some more of them stand up and say, listen, I am with you. We're with you. And we've got some outstanding black leaders doing just exactly that who are willing to think anew and not be taken for granted. (Applause.)

Q When is the debate likely? Are there any restrictions? How much of the press would you like to be directly involved?

There were several questions on this. This is one of them.

THE PRESIDENT: I have no problem with the format we used before. I mentioned this on the Tom Brokaw show. I'll debate Governor Clinton. I'm not a professional debater. I'm not an Oxford man -- (laughter) -- and I think he's good at that. I mean, he's got more statistics than there are problems. (Laughter and applause.)

I know I'm up against a formidable debater, but it's not anything other than -- look, I'll be there. I'll let my capable staff figure this out, and whatever they recommend, I'll show up. And I think I've done reasonably well in the debates in the past. You ought to try taking on Geraldine Ferraro if you think things were tough. (Laughter.) We go back a ways on these debates.

So I think there will be debates, and I think -- I've already indicated I think the format was very fair, the way we've been doing it in the past. But as I said on Brokaw, I know it's -- you get some intellectuals out there and the Harvard schools and they all want you to have 25 debates, and I don't think it's that big a deal. But I'll take my case to the American people any way I can, including debates.

Q Well, the last question, Mr. President. Next time in Detroit could we have breakfast, my treat? My name is Patrick Campbell from Edward Township. (Laughter.) He addresses that to you and Mrs. Bush.

THE PRESIDENT: Well, Patrick, it's tough times.
I'll be glad to accept your offer. (Laughter.)

Q Thank you, Mr. President.

THE PRESIDENT: Thank you all very, very much.
(Applause.) Thank you. A great pleasure to be with you.
(Applause.)

END

1:54 P.M> EDT

Agenda for American Renewal

A handwritten signature in white ink, reading "George W. Bush". The signature is fluid and cursive, with the first name "George" and last name "Bush" clearly distinguishable.

George Bush
President of the United States

Agenda for American Renewal

I. Introduction: The Challenge

America stands at the edge of a new era, a new century. Here is my bridge to the other shore: An Agenda for American Renewal — diagnosing the economic problems we face, setting forth the principles to guide our actions, and explaining the approach I am pursuing.

Over past weeks I have been discussing some of the elements of my economic agenda. In coming weeks I will be expanding on my ideas. This document shows how the pieces fit together.

It is important to step back for a moment, to take stock of where we are as a great nation in the broader sweep of history.

The American people have just completed the greatest mission of all, the triumph of democratic capitalism over imperialistic communism. Mission accomplished.

Throughout history, when long wars end, people have been confronted with the problems of converting to peacetime and establishing a new basis for securing peace and prosperity.

In wartime, the costs of Government are always high. Domestic needs are not fully met. In times of conflict, a good nation tries to look after its poor, its sick, its elderly, its less privileged members, but not as completely as it should or would like to.

Today, this year, for the first time since December 1941, the United States is not engaged in a war, hot or cold.

We are a nation at peace. But being at peace with others and being at peace with ourselves are different things. The one we have achieved. The other, we can and will.

The American people recognize this historical watershed. They want and deserve a peacetime system of taxation, a peacetime freedom from unnecessary intrusion into our lives, a peacetime commitment to sound money, a peacetime dedication to unfinished work and unsolved problems close to home.

At the same time, Americans are aware of epic changes in the world and the economy. They sense the disquiet in many of the industrialized democracies that have been our partners in the long struggle. Our own economy has been going through some profound changes. And I un-

"We are a nation at peace. But being at peace with others and being at peace with ourselves are different things. The one we have achieved. The other, we can and will."

derstand how difficult change can be, particularly for those who feel its effects most directly. Americans sense we face an era of great opportunity, but that there are also great risks if we fail to choose wisely.

We must now demonstrate our unique ability to transform anxiety into regeneration. Only in America do we have the people, the resources, the economic strength — and especially the principles and ideals — to pick up the challenge.

For America to be safe and strong we must meet the defining challenge of the '90s: to win the economic competition — to win the peace.

The United States must be a military superpower, an export superpower, and an economic superpower.

My approach is to look forward — to open new markets, prepare our people to compete, to strengthen the American family, to save and invest — so we can win.

This future depends on economic growth, but not for the few at the expense of the many, not for the present at the expense of the future.

In this country, we have always preferred an entrepreneurial capitalism that grows from the bottom up, not the top down, a capitalism that begins on Main Street and extends to Wall Street, not the other way around.

Nor have we been taken in by the view my opponent prefers, that Government should accumulate capital — by taxing it and borrowing it from the people, and investing it according to some industrial policy design.

My agenda is for an inclusive America, not an exclusive America — and certainly not a reclusive one. We will challenge the world with an international economic and trade strategy that will promote free trade arrangements east and west, north and south, to strengthen our global economic reach and complement our worldwide security presence. At the same time, we need to foster the capabilities at home that will keep us in the lead.

Developed economies need developing minds. To help prepare all our children for a constantly changing workplace, I want to make radical changes in our education system. Each child should graduate with skills, self-discipline, and self-confidence.

I will sharpen the competitive edge of our businesses by encouraging entrepreneurial capitalism and small business, deploying advances in R&D and technology, and reforming our legal system so it no longer puts us at a global disadvantage.

My agenda promotes economic security for working men and women through job training that will ease adjustments and provide people with new capabilities for work in the face of competition and change. And I will enable families to concentrate on building for the future by giving them the means to protect themselves against today's cost of health care, and by making it easier to build tomorrow's retirement security. I want our efforts to reach out to all our citizens, leaving no one behind, because we will need the work, aspiration, and energy of each and every American.

Finally, since our competitive strength and entrepreneurial spirit must flow from the private sector, I will streamline Government to meet changing needs.

We can empower America to reach a grand goal: a \$10 trillion economy by the first years of the 21st Century.

When President Reagan and I assumed office in 1981, the U.S. economy was about \$3 trillion. We've almost doubled that over the past 12 years. So I know we can nearly double it again through sustainable real growth over the coming decade.

With a \$10 trillion economy, we could provide the resources, private and public, to satisfy our most ambitious social and financial requirements. We could simultaneously renew America and pay down our national debt.

So now let me turn to how we can meet the challenge and reach our goal.

II. The Context: Five Changes Underway in the Economy

The U.S. economy has been working its way through five profound changes. They establish the context for my agenda.

The first great change in our economy is ironically due to our very success in ending the Cold War. Since our superpower rival of the last half century has dropped out of the

race, we are now able to do something we have all hoped for since the close of World War II — lighten the load of the defense burden.

In the short run, this adjustment has meant cutbacks and lay-offs in many industries that have depended on defense spending. We must ease this transition. But in the medium and long run, reductions in defense spending will free up many new resources for our people and economy.

Second, it seems that almost every time you open the business pages you can find a story about a major U.S. corporation that is restructuring itself. Our industries are in the process of transforming themselves from old-style hierarchical organizations to so-called "flattened pyramids." This new industrial organization emphasizes a skills-based workplace, "lean production," a "just in time" inventory, and short product cycles rather than mass production. Our companies are integrating R&D, manufacturing, and marketing into a seamless web of innovation. This is a revolution as dramatic as the one when Henry Ford led the country from craft-based production to mass manufacturing early in this century.

"The first great change in our economy is ironically due to our very success in ending the Cold War. ...we are now able to do something we have all hoped for since the close of World War II — lighten the load of the defense burden."

We have to make these adaptations succeed if America's industries are to keep ahead of their international competitors. Strong sales and productivity increases are the prerequisites for creating more jobs, boosting wages, and upgrading benefits. In fact, it is partly because of these changes that our annual growth in manufacturing productivity over the past 10 years was over 50% higher than in the Carter years. It's why American firms lead the world in exports.

Nevertheless, these changes also have produced layoffs and relocations among both blue and white collar workers. Middle-aged breadwinners are wondering whether their company will be the next to make announcements, and they worry about their jobs, health care, and pension rights. Some are also troubled by the prospect that after sacrificing to send their kids to college — often the first generation to attend — that these children's diplomas may not be golden tickets to security.

Third, the 1980s wiped away the dismal economic performance of the late '70s. We enjoyed the longest peacetime expansion in U.S. history, lasting seven and a half years. We

created over 21 million jobs, more than all the new jobs in the other major industrial countries and the rest of Western Europe combined. Yet great booms produce excesses, and this time too many companies, too many financial institutions, and too many households took on too much debt.

We have been paying down that debt — and lower interest rates have helped us do it. Millions of people have refinanced homes at lower rates, reducing mortgage payments by as much as \$1,200 to \$1,500 a year. When companies restructured, they paid down debt, strengthened balance sheets, and positioned themselves to enjoy greater profits when stronger growth resumes. This process will leave our economy leaner and more powerful. Many firms already are. But while that debt was being paid down, people bought fewer goods, and companies put less money into new investments and jobs. The process is largely over, but it has left consumers and companies a little cautious.

Fourth, we entered the '80s with a banking system designed 50 years earlier — an incongruous relic in an era when billions of dollars can be sent around the world in a microsecond. The United States

entered the 1980s with some 14,000 commercial banks and 4,600 savings and loans. In comparison, Canada had about 160, and Japan had under 100. The vast majority of those small U.S. banks and S&Ls operated in a heavily controlled environment where their costs of funds were limited by ceilings on your passbook accounts. Other regulations restricted competition by imposing costs and inefficiencies on savers and borrowers.

In the late '70s, this out-of-date system was buffeted by record interest and inflation rates; it was challenged by competition from new financial services. As in any other line of business, the less efficient institutions could not survive. But because our banks and S&Ls held insured deposit accounts for most hardworking Americans, the streamlining process had to be managed in a way that enabled the Government to protect your savings. In effect, the Government picked up these costs so your savings would be safe.

This process, too, is nearing its end. A strong economy must have a good banking and financial system so entrepreneurs can get capital, businesses and farms can get loans, and families can buy

homes and cars. We will have a more competitive and efficient financial system that will serve companies and families better. Over the next few years, the Government will actually gain revenues from the sales of billions of dollars of assets that it acquired from banks and S&Ls as it protected savers. But this process has left lenders cautious. Business borrowing rates and mortgage rates are way down, but it's still too hard for small businesses to gain access to capital and credit. We are still taxing capital too much.

The final economic change is perhaps the most far-reaching of all: No nation is an island today. We are part of a global economy. To grow is to trade; to expand is to compete. One manufacturing job out of every six depends directly on our exports. One acre out of every three is sowed for sale abroad.

This international economic interdependence has three implications.

One, when growth slumps abroad, it drags our economy down with it. Both Western Europe (especially Germany) and Japan are going through major readjustments — and that has contributed to our sluggishness.

Two, it means that if America is going to be strong and growing in the 21st Century, we must be ready, able, and willing to compete around the globe. We need to encourage entrepreneurial capitalism and investment at home, and at the same time ensure that our labor force remains the best in the world.

Three, we need to seize opportunities to develop new markets, particularly in areas that have potential for significant growth in the future. One of the other benefits of the end of the Cold War is the extraordinary potential to expand trade and sales to hundreds of millions of potential customers who not long ago were the captives of our enemies.

III. Start with Strengths

In developing an agenda for the future, we should take a clear-eyed look at our strengths as well as weaknesses. Not surprisingly, the other side has conveniently skipped over our country's many strengths. Frankly, they want you to believe America is over the hill and past its prime. But they have no more right to

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convince you the economy is worse than it is for political advantage than I have to understate the problems. So let me just note several key facts.

- The Misery Index — the sum of inflation and unemployment — is down to 10.8% today, from 19.6% in 1980.
- Inflation has fallen to roughly 3%, the lowest in a quarter of a century (except for 1986).
- Interest rates are at a 20 year low. Mortgage rates are now in the 8% range, half the rate President Reagan encountered in his first year. Thanks to these low rates, more people can afford to own a home today than at any time since 1973.
- While unemployment is still far too high, the share of the working age population with jobs during my administration has averaged 62.2%, the highest in U.S. history.
- The United States has the highest home ownership rate of all major industrialized countries: 66% of U.S. households own their

own homes, as compared with 59% in Japan and 40% in Germany.

- The U.S. sends more of its students on to higher education — 68% — than any other country, well above the 32% rate in Germany and 30% in Japan. And 52% of these U.S. students are women, as compared with 26% in Japan and 38% in Germany.
- With exports of \$622 billion, the U.S. is the world's largest exporting nation. Exports increased by 40% during my Administration.
- We produce 25% of the world's total output with 5% of the world's population.
- The productivity of American workers is approximately 26% above those in Germany and 30% above those in Japan.

I do not mean to suggest either that everything is well or that we do not need to lead and manage the changes taking place in the world and at home more actively. We do.

But you can't chart the stars if you think the sky is

falling. We must know our strengths before we build on them. Over the past 12 years, we increased the U.S. economy by about \$2.8 trillion — that's like creating the total size of the German economy twice over. So I know our goal of a \$10 trillion economy is attainable.

We're also in a strong position internationally. But we're going to need the national adaptability and capability to keep leading our competitors. And we must have the courage of our convictions to say "no" to the wrong sort of changes for the future — false promises based on false premises — changes we cannot afford at this key moment in the world economic competition.

IV. Guiding Principles

Before outlining the specifics of my agenda, I want to set out four guiding principles. An effective strategy must be dynamic. As new problems or opportunities present themselves, we will need to make adjustments. Guiding principles will ensure we follow a consistent path and help shape our policies into the future.

First, start with the basics: We are a nation of special individuals, not special interests. Individuals gain primary strength, protection, and inspiration from their families and communities, not the legal system or Government social services. People find their friends and their enjoyment in voluntary association with one another, not in some bureaucrat's paint-by-numbers dream.

Individuals, families, communities. That's where we start.

Second, we have to keep to the fundamentals of sound economic growth: lower tax rates, limits on Government spending, greater competition, less economic regulation, sound money, and more open trade that can free tremendous private initiative and growth.

Experience has shown that these are the steps we need to take to create jobs, raise wages, spur entrepreneurs, expand capital and investment, and build businesses.

Third, in the '90s Government can build on these fundamentals by offering opportunity and hope for individuals, families, and communities. There is a conservative agenda

for helping people, for responding to their needs. And we've seen that these are approaches that work.

We prefer a hand up to a handout. We want to empower people to make their own choices, to break away from dependency. We want to give individuals and families economic security by giving them the capital, the capabilities, and the confidence to decide for themselves. We want everyone to have a stake in society, to own property, so everyone will build something with it for themselves and our country. Whereas my opponent's approach may place a premium on redistribution and "leveling," our programs will unleash initiative, reward success, and encourage excellence. Our approach is to give people the power to work, save, and be their best.

Finally, all our policies must be brought together effectively if we are to prosper as a people and succeed as a nation. America must have appropriate new approaches for the changes at home — just as we've launched new policies to lead and manage change abroad. We must recognize the interrelationship between domestic and foreign policy — between economic and security policy. At the same time, we

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must execute our agenda more effectively with a new Congress, state and local governments, and the private sector. Our aim must be to press our policies together, as a package, to make America secure and strong.

Therefore, my Agenda for American Renewal mandates action on six interconnected fronts. Because we face complex problems, no one solution will suffice. The whole of these elements will be a solution greater than the sum of its parts:

- Challenging the World: A Strategic Global Economic and Trade Policy
- Preparing Our Children for the 21st Century Economy
- Sharpening Business' Competitive Edge: Encouraging Entrepreneurial Capitalism
- Promoting Economic Security for Working People
- Leaving No One Behind: Economic Opportunity for Every American
- "Rightsizing" Government

This is how America will create a \$10 trillion economy.

V. Challenging the World: A Strategic Global Economic and Trade Policy

During the Cold War, we built a global security structure to contain and counter the Soviet Union and communist aggression. We forged military alliances across the Atlantic and Pacific that underpinned that structure. In the post-Cold War era, we need a strategic global economic and trade policy that will ensure our position as an economic and export superpower as well.

We are well positioned to achieve this goal. We enjoy the largest fully integrated market in the world; this gives us leverage with other countries that want access to our market. Once the Congress enacts the North American Free Trade Agreement (NAFTA), our position will be further strengthened. NAFTA will open an important market, a Mexican economy whose growth prospects will quickly transform its expanding industries and consumers into

excellent American customers. Equally important, the integration of United States, Mexican, and Canadian capabilities will improve our global competitiveness by enabling American firms to purchase inputs at lower costs. This will help U.S. firms to stay in the forefront of high wage, high value-added production.

Our geopolitical position is also advantageous. The United States is both a Pacific and a European power; our political and security ties link us with the largest and most rapidly growing economies across both oceans. Our trans-Pacific trade already exceeds our Atlantic trade; that's one reason why we helped launch an organization for Asia-Pacific Economic Cooperation that will further strengthen our economic ties with that region. Our own neighbors — from Central America to Chile — want to build bridges of trade with us so they can build better economies for their people.

"The ball of liberty," Jefferson once wrote, "is now so well in motion that it will roll around the globe." He was right.

Freedom has rolled through Eastern Europe, the former Soviet Union, and Latin America — and the ball

is now in our court. Free people and free markets develop hand in hand. People value American values. People want to buy what we have to sell. English is the language of freedom *and* business.

Our political and economic ties are complemented by the appeal of American culture all around the world. This is a new "soft power" we can employ. Today, our movies, music, and videos are among our top-selling exports.

Finally, as the primary founder and the most significant proponent of the GATT global trading system, we continue to have a strong hand as long as we use it to truly open markets, including our own. The key to America's growth, expansion, and innovation has always been our openness to trade, investment, ideas, and people.

Therefore, the next steps in my strategic trade policy are to secure Congressional agreement to NAFTA and to complete the global trade negotiations — the so called Uruguay Round negotiations in GATT. Our NAFTA agreement will open doors for American businesses, workers, and consumers. It will create good jobs. Nevertheless, I expect a tough fight in the Congress in early

1993 because of those special interests who herd together with a protectionist purpose. The global trade negotiations, in turn, could be very close to a breakthrough if the United States continues to act as a strong world leader. There is a proposed draft text that establishes the outlines of a significant new GATT agreement. Once we assure cuts in the subsidized agricultural trade along the lines of that text — to enable our farmers to secure their competitive advantage — I believe we will be able to complete the Uruguay Round agreement.

An improved global trading system is, however, only a base for freer trade, for stronger investment ties, for increased global growth. We need to start to develop a strategic network of free trade agreements [FTAs] across the Atlantic and the Pacific and in our own hemisphere. This network will stand in sharp contrast to the backward blocs of economic isolation. If we are to be a true export superpower, we cannot be tied down to one region. Instead, my intent is to use our attractive domestic market as the basis of a muscular free trade policy that will strengthen America's global economic reach and complement our worldwide security presence.

"Free people and free markets develop hand in hand. People value American values. People want to buy what we have to sell."

By focusing on opening markets, I also believe we can reduce structural barriers to competition in North America, Western Europe, Japan, and elsewhere. Competition will encourage entrepreneurial capitalism — at the expense of entrenched interests — spurring even greater global growth.

More specifically, I will need to secure from the Congress additional trade negotiating authority within the first half of 1993. To overcome the special interests and the protectionists, I will need a mandate from the American people. If America is going to be an export and economic superpower, the U.S. President must take a strong stand on the negotiation of trade and economic agreements. The Congress will read vacillation and equivocation as weakness, and the national interest will lose out to the logrolling trade-offs of Congressional business as usual. That's one very big issue at stake in this election.

With new negotiating authority, I will pursue new trading and economic opportunities in Latin America under my Enterprise for the Americas Initiative, starting with Chile. I would also like to work towards FTAs with Poland, Hungary, and Czecho-

slovakia by the end of my second term. And I would explore the possibility of a connection between NAFTA and the ASEAN FTA, or AFTA. It will not take long for other countries to begin to express their interest in new trade and business ties with us. For example, leaders in Australia and Korea have already spoken of their interest in forging closer economic ties.

Some see new threats, others see old enemies. I see new markets, new opportunities, new jobs.

As we develop this economic and trading network for the 21st Century, I will fight hard to promote American trading interests. For example, I am committed to a sizable Export Enhancement Program [EEP] to ensure that our farmers can go head-to-head with the European Community's subsidized agricultural exports. We know from our experience with military security that the key to economic security must be based on "Peace Through Strength" — not unilateral disarmament. That's why I recently announced the largest quantity of wheat ever available under our EEP program — almost 30 million metric tons to 28 customers.

I will ensure that our ExIm Bank and the Overseas Private Investment Corporation (OPIC) work with teams of our ambassadors to develop trade and investment opportunities for U.S. firms. We've already begun this with the six ASEAN countries — and it's working. I will particularly stress helping America's small businesspeople to develop trading opportunities. These companies look small — but they trade big. I know. I started my own. And I have visited small factories all across the United States that first survived and then prospered by taking on the foreign competition. I know Americans can do it.

VI. Preparing Our Children for the 21st Century Economy

In the 21st Century our greatest national resource will be our people. Materials, machines, and methods will come and go, but the American worker will remain the key to our economic security. Since the workplace of the 21st Century will be constantly changing, we need to prepare the American people to adapt to and direct the process of

change. Therefore, our kids must arrive at school ready to grow, and they need schools where they will learn how to keep learning all their lives.

Our New American Schools will help prepare our children to become the contributing citizens of tomorrow. Equally important, we want to enhance children's sense of self-worth, their confidence, their sense of participation in a larger community and society. This is the conservative philosophy of empowerment, helping people to help themselves.

I want to do my best to help all children come into the world as truly "created equal." That's why I am more than doubling funding for a *Healthy Start* initiative that targets communities with high infant mortality rates. We are also increasing prenatal care, nutrition services, and substance abuse treatment for pregnant women. And I want everyone to spread the word that every parent must share the gift of good health with their children.

We need to focus especially on the preschool years, so that children coming to school are healthy and curious. Funding for the Women, Infants and Children Nutri-

tion Assistance program (WIC) has grown 258% between 1980 and 1992; my request for an additional \$240 million for 1993 brings the annual cost to \$2.8 billion.

I have also increased funding for the *Head Start* program by 127% — for a total of \$2.8 billion in 1993. That includes an additional \$600 million increase for next year — an unprecedented 27% annual jump — so that a year of *Head Start* will be available for every eligible four-year old whose parents want to participate. (Under my budget, almost 800,000 children will receive a year of *Head Start* before entering elementary school.)

Child immunizations are also vital to safeguard our kids' health. Every year since 1981-82, 95% or more of the children entering elementary school have been immunized against the vaccine-preventable diseases. Now we are focusing greater attention on preschool children. My 1993 budget calls for an 18% increase in child immunization grants.

I want the United States to offer opportunity and encourage excellence; we must be fully capable of competing in a global economy. Therefore, it

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is imperative that our educational system prepare and point the way for our children. As in the past, education should be the ladder that the child of modest means can climb to better him or her self.

Our current school system is falling short of these needs — and the poor are hurt most. Only 19 out of 66 public high schools in Chicago graduate more than half their students, and many of these graduates can barely read or write.

Our educational establishment is caught in a sort of time warp, a system created for another age when the needs were not the same, children grew up differently, and adults rarely changed jobs.

Money alone is not the answer — the United States already spends more per pupil than any other country but Switzerland. And funding for the Education Department has increased 41% over my term.

The answer is a radical overhaul of our educational system. If we want to change our country, we've got to change our schools. That's what my America 2000 program is all about.

Our kids can't beat world class competition if they can't

meet world-class standards. We are moving ahead with the development of these standards in math, science, English, history, geography, arts, and civics.

Second, we need voluntary national achievement tests to measure the progress of our students. That way we can compare the performance of different schools in helping our children achieve the national standards.

Third, we need to give schools the flexibility to become educational entrepreneurs — to figure out the best ways to motivate our children, use technology, include parents, and involve new types of teachers. We will create "Education Enterprise Zones." There is no particular reason why schools have to end at 3 p.m. so that students can sit in front of the TV for five hours a day. We need to free school administrators and teachers from rules, regulations, and reports that have become a poor substitute for student achievement; we can do away with red tape once we institute a new testing system that evaluates schools not on the basis of how many forms they complete, but of how many minds they prepare.

Finally, we must take

school choice off the administrator's desk and put it back on the kitchen table. Choice is critical to the success of the whole, integrated overhaul of our educational system. Competition, the underlying principle for this radical reform, will not work unless we give consumers the ability to choose.

Wealthy families already have this choice for their children. Many of the people that you saw at the Democratic National Convention have this choice for their children. Why shouldn't you have this choice for your children?

Chicago's public school teachers — 46% of them — send their kids to private schools. But my opponent and his special interest supporters don't think you should have the same choice unless you are privileged enough to afford it.

One of the greatest educational innovations in this country was the passage of the GI Bill after World War II. No one told my generation that a vet couldn't go to Notre Dame or Brigham Young or Baylor or Howard or Yeshiva.

So I want a "GI Bill for Children" to help give lower and middle income families the means to select any school:

public, private, or religious. I also want scholarships available to be spent on after-school, Saturday and summer academic programs.

For those who argue that my approach will weaken the public school system, I would remind them that the first GI Bill was a tremendous boon for public universities. Or listen to Starr Parker, a small business owner actively promoting choice in the Black community, who put it this way: "The rich have choice now. When I was on welfare, there was no way I could put my child in school. It's time we stop condemning the poor to a monopoly education system."

We've already made significant progress in starting this radical reform agenda. Some 44 states, and over 1700 communities, have already adopted my new national education strategy — America 2000. Indeed, this progress offers a good example of my commitment to pursue my agenda whether or not Congress dawdles. If Congress balks, I will work with governors, state legislators, community officials, and the private sector.

I hope the new Congress will not remain an apple polisher for the educational es-

tablishment and special interests that want to resist this revolution. A new system of education in this country is probably the most important ingredient over time in making America the winning economic and export superpower in the post-Cold War era.

This must not only be my agenda, but yours, too. I will fight to give parents in America the right to choose the school their children will attend, but you need to help, too. After you check out of work, check into your child's homework. Talk to your child's teacher. Join your local PTA. My approach — America 2000 — relies on parental, business, and community involvement in creating new schools that break the mold.

I put the family at the center of our society. Government must try to help families — not replace them. When it comes to choices for our children, parents really do know best. We should increase the range of choices available to parents, and Government assistance should be targeted to those families most in need.

The other side may talk about similar problems, but they are approaching them with a fundamentally different ideology. You can see the con-

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trast not only in education, but in health care, or in the debate that took place over my child care proposal, which we fought for and managed to enact into law. The opposition prefers uniformity to variety and choice. Because they place a higher value on "leveling" society, they will tend to rely on Government bureaucracies to offer "standard service." My approach to education, child care, health care, and other topics is to rely on a diverse private sector to supply the service and to empower families to make their own choices. I don't want to pull everyone down to make them equal. I want to give everyone the tools to climb as high as they can dream.

VII. Sharpening Business' Competitive Edge: Encouraging Entrepreneurial Capitalism

Our ultimate success as an economic superpower is dependent on encouraging the entrepreneurial spirit of our private businesses. I call it entrepreneurial capitalism, and I saw it work when I started a small

business in Texas. I also call it common sense.

You allow people to keep most of what they produce, and they will produce more than they can use, the rest being capital. You invite people to risk failure by allowing them to keep the rewards of success, and they will keep trying until they succeed.

When capital is taxed lightly, it becomes abundant. When it is taxed heavily, as it is now, it becomes scarce, available only to those at the top, who need it least of all. That's not what I want. Even Jesse Jackson put it this way: "Subtract capital from capitalism and all that's left is the 'ism'." If capital were abundant, labor would become scarcer. And the unemployment lines would shrink. That's what I want.

So I want to cut the capital gains tax and index it for inflation. I want to create enterprise zones in inner city and rural areas. I want to make the R&D tax credit permanent. I want to provide an additional first-year depreciation allowance for purchases of property.

Those are fundamentals. In addition, there are three other ways we need to sharpen

the competitive edge of American business:

- strengthen small business;
- support civilian R&D linked to a research extension network; and
- reform our costly legal system.

A. Strengthen Small Business

Small business is the backbone of a growing economy. Small businesses create two thirds of our new jobs; they account for 39% of our GNP.

I am seeking to aid small businesses by reducing costly tax and regulatory burdens, increasing access to credit, and removing barriers to competition.

I have taken steps designed specifically to ease the tax burden on small businesses. For example, the IRS has proposed regulations to allow small businesses to deposit payroll taxes on a monthly basis. And it has released a ruling allowing over 16 million sole proprietors to deduct tax preparation fees as a business expense rather than as a limited itemized deduction.

I want to build on these actions. For example, we are working on a Single Wage Reporting System that would permit businesses to report state and federal wage information through a single entity, thereby consolidating tax reporting requirements and reducing the burden.

In coming weeks I will talk more about ways we can encourage small businesspeople and the jobs they create.

On the regulatory front, I have extended for one year the freeze on paperwork and unnecessary federal regulation that I imposed last winter; the federal regulatory weight hits small businesses particularly hard. I have also instructed federal agencies to look for ways to modify existing regulations that impose a special economic burden on small business. For example, to increase access to capital for small businesses, the SEC has announced proposals to reduce and in some cases eliminate the public disclosure requirement for small companies issuing stock.

Since small businesses are particularly vulnerable when credit is tight, we have to help them as our financial system is restructuring. That's why we have authorized over \$6

billion in general business loan guarantees through SBA in 1992 — an increase of more than 50% above 1991.

SBA's New England Lending and Recovery Project is a pilot effort that extends credit to viable small firms when access is limited because banks are having difficulty. If it works well and is needed, I'll expand the project to other regions. We also have worked with bank regulators to base real estate values on income earning potential rather than liquidation value. We have taken steps to restructure the small business investment program, the only venture capital program in the Government. And we are developing ways to offer special financing to exporting entrepreneurs.

Through its procurement assistance program, SBA helped small businesses secure federal contracts worth over \$35 billion in FY 90 — almost 20% of all prime contracts let during that year.

To ensure that small businesses can help their communities overcome disasters, we will be pressing forward with approximately \$1.7 billion in low-interest loans to small businesses in Florida, Louisiana, California, and elsewhere.

"I am seeking to aid small businesses by reducing costly tax and regulatory burdens, increasing access to credit, and removing barriers to competition."

Finally, we need to help small business by removing burdens to competition. My health care reforms would reduce costs for small businesses without costly Government mandates or higher taxes. Enactment of my legislation to establish uniform federal law on product liability would relieve a major competitive handicap that is keeping new products from the market, boosting insurance costs sky high, and killing jobs.

B. Support Civilian R&D

To be the world's economic leader tomorrow, we clearly have to invest in R&D and new technologies today. Given the pace of change, we have to both come up with new inventions and organize ourselves to deploy new technology without delay.

The changes in industrial organization that I described earlier have three major implications for technology development. First, the more rapid product development cycle places a premium on bringing an idea quickly from the lab to the marketplace. Second, we need to put new technologies to work in all applications in order to reap the full competitive and economic benefits from our R&D. While

Americans invented VCR technology and the FAX machine, we did not capitalize on their explosive popularity. Third, we need to rely increasingly on flexible, agile manufacturing, rather than old style mass production. We should have the capability to make a variety of products quickly and economically — a process characterized by short product cycles, but also high quality output.

Taken together, these developments emphasize decentralization — an approach exactly opposite to my opponent's "national industrial policies" led by Government bureaucrats. We need to get technology development, production, and marketing closer to the consumer, not further away. Moreover, my opponent's call for a cut in support for university-based research will hurt the development of cutting edge technology.

My agenda will increase funding for basic research and complement that work with a focus on applied research and development. Despite cuts by Congress, we have managed to increase funding for basic research by 26% since 1989 — to a record level. We are supporting applied R&D through a series of new, high pay-off investments in critical technologies:

- a High Performance Computing and Communications Initiative that will enable the development of a thousand-fold increase in computing capability by 1996 and a one hundred-fold increase in communications speed.
- an initiative to improve the manufacturing and performance of materials — improvements that will enable advances in a wide range of other technologies.
- an expanded program in biotechnology research with applications in health, agriculture, and environmental protection.
- the establishment of the U.S. Advanced Battery consortium, a jointly-funded four-year effort to develop an advanced battery for an emissions-free electric car.
- a significant increase in our aeronautics research budget, underscoring the importance we place on the U.S. aeronautics industry in an increasingly competitive global market place.

- the establishment of seven regional manufacturing technology centers for the distribution of modern manufacturing tools, such as computer-aided design, numerically-controlled machines, and robotics.

These efforts to develop and apply new technologies need to be complemented by the identification and removal of barriers to the private sector's ability to bring new products and services to the market. That's why my regulatory reform efforts — including a process that subjects regulations to a competitiveness analysis while still protecting health and safety, and a proposal to "sunset" regulations — are critical to supporting our enhanced technology development.

Just take one example: my opponent has proposed a major new Federal Government investment in the field of national telecommunications networks at the exact time that our private sector is seeking to develop such a network on its own, but has been stopped from doing so by federal regulations.

C. Reform Our Legal System

Our competitive edge will be dulled if businesses are continually handicapped by a legal system that serves lawyers but frightens people. Therefore, another component of my agenda is a reform of the American civil justice system.

America has suffered a civil litigation explosion. Over the past 30 years, federal lawsuits have almost tripled. Instead of being fast, fair, and affordable, our civil justice system is slow, expensive, and putting us at a global disadvantage.

Long delays in dispute resolution waste valuable judicial resources, force early settlement by those who cannot afford to wait, discourage those who have meritorious suits, and encourage frivolous suits by those who hope to leverage unjust settlements. High punitive damage awards are passed on to consumers through higher prices, job cuts, higher insurance, and fewer new products.

According to a soon-to-be released study by the National Association of Manufacturers, Americans spend up to \$200 billion a year just on direct

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costs to lawyers. That does not even count lawyers on payrolls or the money spent on court settlements.

Our legal system is killing our international competitiveness. Other nations do not face high domestic litigation costs. Foreign companies only need 6% of the product liability insurance our firms must carry because we do not have uniform state standards for product liability and punitive damages.

The litigation explosion affects everyone. High liability costs have closed playgrounds and pools, forcing kids on to the street with nothing to do. Some companies are afraid to offer products at home that are available overseas because they fear the liability.

My product liability reform legislation confronts the trial lawyers head on. I want to stop wide variation among states' product liability rules; stop important products from being kept off the market; stop excessive litigation costs with more money going to lawyers than to injured consumers; cut excessive insurance rates; and end excessive consumer costs.

My "Access to Justice Act of 1992" is intended to restore fairness and efficiency to the

nation's civil justice system through: alternatives to federal civil trials such as alternative dispute resolution; incentives for pre-litigation settlement, including pre-complaint notification; and a "loser pays" rule requiring the loser to pay the winner's legal fees in suits involving federal diversity jurisdiction.

We also need to continue our work with the states to encourage fundamental change at the state and local level.

Lawyers, especially trial lawyers, are a powerful vested interest in our society. They are well represented in Congress and high on the lists of political contributors. My opponent knows them very well. But this is a problem too important to leave to the lawyers and their friends in high places. We must sue each other less and care for each other more.

VIII. Promoting Economic Security for Working People

The American businesses of the 21st Century will need workers who will bring them to life and keep them ahead of

our competition. To be able to contribute and concentrate, working men and women will want to know that they can enjoy economic opportunity and security. We can only achieve true security by developing people's capability, not dependency. And we can best supply security through the private sector, not Government bureaucracies.

It will be Government's role to expedite workers' adjustments in a fast-changing marketplace, provide people the means to work and take care of their families, and arm people to face the future by empowering them to make their own choices. In particular, we can enable families to focus on building a future by alleviating their fears about one of the single biggest costs and problems that can knock them back: health care. And we can help foster retirement security through encouraging portable pension savings.

A. Job Training

Given the rapidity of change in the international and domestic marketplace, we have to prepare people for the prospect of changing jobs and learning new skills many times throughout the course of a productive life. Therefore,

we need a range of job training and placement services — for young people, factory workers, white collar employees, and particularly during this period, defense industry workers.

That's why one important portion of my recently-announced workforce adjustment initiative is designed to shift the Government away from the old narrowly defined, expensive, and less effective trade adjustment assistance that paid people off without giving them real help to get back the work.

Work means more than income to Americans. It is also fundamental to people's self-esteem, their self-confidence, and the respect of others. These are attitudes, values, that I want to encourage. I want all Americans to be builders — for their families, their communities, their country. To encourage the work ethic, we need to make every effort to match people with the jobs created by our entrepreneurial capitalism.

The three key features of my job training proposal are: (1) universal coverage, so all dislocated workers will have access to basic transition assistance and training support; (2) skill grant vouchers of up to \$3000 to help meet the costs

of adding new skills and training; and (3) a tripling of the resources currently devoted to training and worker adjustment, an allocation of \$10 billion over five years.

This proposal builds on my January plan to streamline the federal job training system through "one-stop shopping" in every community. Experience has demonstrated that the most effective training and placement services are those closely developed with local employers through private industry councils. That way the training is designed to develop skills that employers know they will need.

My expanded job training efforts will also be specially designed to help those who may need to change jobs or careers as a result of NAFTA or other trade agreements and the downsizing of our defense-related industries. But we will ensure that we offer training and placement to all workers.

These dislocated workers would be eligible to receive three types of assistance: (1) transition-assistance that includes skills assessment, counseling, job-search assistance, and job referral; (2) training assistance in the form of skill grants; and (3) transition

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income support where necessary for workers completing retraining.

I've also proposed a specially-targeted Youth Skills Initiative.

A new Youth Training Corps will provide economically and socially disadvantaged young people with intensive vocational training through 55 residential YTC centers nationwide; these centers will be located primarily in rural areas and will seek to utilize converted defense facilities, putting them to good use. The YTC will draw from the military's high level of leadership and training expertise by giving a hiring preference to individuals leaving our armed forces. The discipline that triumphed in Desert Storm can win at home, too.

I will also complement the YTC with a "Treat and Train" program to strengthen existing youth drug training programs.

To help meet the needs of young people not planning to go on to college, I will expand the National Youth Apprenticeship Program that I began in January. This program offers high school juniors and seniors a combination of classroom instruction and a struc-

tured, paid, work-experience program. I want student apprentices to receive both a high school diploma and a widely recognized certificate of skill competency. Students will also have the opportunity to continue training at the post-secondary level.

I started my Apprenticeship Program as a demonstration program in 6 states; in my second term, I will expand it to all 50.

Finally, I will more than double the size of the present JROTC program, a very successful and popular partnership between the military and schools. JROTC emphasizes self-discipline, values, citizenship, personal responsibility, and staying in school — it's a first class alternative to drugs and gangs. My goal is to establish 2,900 JROTC units by 1994. Initially, we will expand this program in inner-city high schools, but I want to make JROTC available to every high school across the country that requests it. This program is another way in which we can relate the successful experience of America's veterans to the next generation.

B. Affordable Health Care for All Americans

The economic security of men and women requires a major reform of the U.S. health care system. The present system provides high quality, high-tech medicine, but at an unacceptable price: spending has increased at a rate two to three times the rest of the economy; thirty-four million Americans have no health insurance; and millions more are afraid to change jobs for fear of losing their health insurance.

My program will build on the strengths of the system — consumer choice, innovation, and state of the art medicine — while controlling costs and expanding access.

I want to guarantee access to health insurance for all poor families through tax credits (or vouchers for those who don't pay taxes) sufficient to pay for a basic health insurance plan (\$3,750 for a family). Other low and middle income families would get tax relief to partially offset the cost of their health insurance. In total, some 95 million Americans will benefit.

My program also includes:

- provisions that encourage small businesses to develop less costly health care insurance networks for their employees by combining resources to achieve broader risk sharing, economies of scale, and purchasing power;
- "job lock" protection for employees and their families so that they will not lose coverage if and when a person changes jobs;
- guaranteed insurability so that people with "preexisting" illnesses cannot be denied a job or health coverage on the job;
- 100% tax deductibility of health care premiums paid by the self-employed, as compared to the present 25% deductibility;
- malpractice reforms that will reduce the number of unnecessary procedures performed on patients and thereby reduce the cost of medical care; and
- reforms to encourage widespread use of electronic billing to save an estimated \$11 billion a year in paper costs.

Taken together, my program would cut health care costs by \$394 billion over five years through preventive care, malpractice reform, reducing defensive medicine, encouraging enrollment in cost-effective health plans, arming consumers with information about cost and quality, and eliminating administrative waste and unnecessary paperwork.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach, in contrast with my opposition, relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs. My malpractice reforms would cut costs further by removing the fear of lawsuits that leads to wasteful procedures.

I firmly believe that a move to national health insurance, as some of my opponents want, would be a major, irretrievable mistake. That course would turn over the health care sector — a full 13% of our economy — to the Government. The result would be more bureaucracy, rationed

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care, inefficiency, and, in the end, even higher costs.

My opponent's "play or pay" approach winds up in the same place as nationalized, bureaucratic health insurance — but through a different route. And it is likely to kill a lot of jobs along the way, especially in small businesses. Increasing the costs of labor — the "play" in his approach — will lead businesses to hire fewer workers. Offering the alternative of Government-sponsored health care paid for with new taxes on payrolls — the "pay" — will dump the problem in the lap of a Government bureaucracy with the costs paid for by businesses and workers.

C. Pension Portability

I have also been concerned about the ability of workers to preserve their retirement pensions as they change jobs. This is a growing need because of the increased likelihood that most workers will have more than one employer over the course of their working years.

I proposed an initiative last year to increase pension portability, expand pension coverage, and simplify the law governing pension plans. And I am pleased that I was able to

sign a law this summer that incorporated my portability proposal. The new law enhances retirement security by permitting workers to transfer accrued pension benefits directly to an IRA or to their new employer's pension plan.

Despite this improvement, I believe we must continue to look for ways to make it easier for workers who change jobs to take pensions with them. We need to eliminate incentives to "cash out" benefits and increase incentives to save for the future.

Job training, affordable health care, retirement security — when combined with a new system of education and entrepreneurial, competitive business, we can offer working men and women real economic security in the 21st Century.

IX. Leaving No One Behind: Economic Opportunity for Every American

For over 200 years, the most exceptional aspect of American society has been the belief, the hope, that this is a land where people can make a

better life for themselves and their children. It's this spirit, the commitment to the American Dream, that has made our country and our society the most dynamic in the world.

If we are going to use that energy to drive us forward into the 21st Century, we will need to tap the aspirations of each and every one of our citizens. No one should be left behind for want of opportunity.

Many of the programs that I have discussed above — health care for all Americans, child care, job training, pension portability, a new competitive school system based on community involvement and choice for all American families — support my plan to empower all Americans to make their own choices and better their lives. But I believe we need to do more for certain citizens who have fallen too far behind.

My philosophy for enabling all Americans to share the American Dream is simple: it's based on property and work. Our urban and welfare programs must be designed to enable people to break the cycle of poverty, get back on their feet, get back to work, and take responsibility for their own choices and their own lives.

I disagree with the failed logic of "welfare rights" and its emphasis on entitlement. I disagree with "income maintenance" strategies — strategies that merely maintain poverty and contain potential.

Our goal should not be more dependence — but rather a new Declaration of Independence — to help people develop the human and financial capital to share the American Dream. We have taken the first step with our implementation of the welfare-to-work logic of the Family Support Act of 1988. We have been encouraging flexible and innovative implementation through waivers that enable states to develop new programs to enhance parental and family responsibility and to insist on education and job training for those on welfare. Welfare policies won't work unless people do.

In our inner cities, we need to restore hope by clearing away the handicap of crime, building a core of property owners, creating business incentives, restoring infrastructure, and focusing our programs on work and discipline.

Enterprise zones can create solid economic foundations in distressed communities.

Our "Weed and Seed" effort can help reclaim and revitalize impoverished and embattled communities by eliminating the fear of drugs and violence, targeting coordinated human services programs, and improving the housing stock and infrastructure.

We also need to extend opportunity by enabling lower income families to build assets — for example, by allowing aid recipients to accumulate higher savings without losing their eligibility.

And we need to expand homeowner opportunities for lower and middle income families. For example, HOPE grants enable more inner-city people to own their own homes. Our \$5,000 tax credit for first-time home buyers would help; so would permitting voucher recipients to apply their rental subsidies toward the purchase of a home.

We can enhance the choice, quality, and availability of housing through affordable rent subsidies in the form of housing vouchers, and through our "Perestroika in Public Housing" program that widens opportunities for public housing tenants to change the management of troubled projects.

"My philosophy for enabling all Americans to share the American Dream is simple: it's based on property and work. Our urban and welfare programs must be designed to enable people to break the cycle of poverty, get back on their feet, get back to work, and take responsibility for their own choices and their own lives."

This property and work-based approach need not be more expensive than the traditional welfare bureaucracy. For example, over the past 12 years, federal spending for low income assistance doubled even after inflation — from \$9.1 billion in 1980 to \$18.3 billion this year (both in 1992 dollars). This year, HUD is providing housing assistance to 4.6 million low-income families, up from 3.1 million in 1980. I have tried to rechannel some of this funding to vouchers because they are more cost effective than constructing new public housing units. Furthermore, families wouldn't have to wait five years for the units to be built, and the vouchers give families more choice.

For too long, Congress has stubbornly refused to discard failed programs that perpetuate welfare dependency. No doubt, many of these programs were well intentioned. But now we know better. Give us a chance to try a different approach that will empower people to help themselves, to build some capital for their families, to make choices that develop self-respect and discipline. That's the real way to offer economic opportunity for every American, to leave no one behind.

X. "Rightsizing" Government

My blueprint envisages an important Government role to make a secure and strong America. But it is also important that Government not siphon off more private resources than are absolutely necessary to perform the functions that will help us win the economic competition. Because an overweight Government — serving itself seconds rather than serving the people first — will weigh us down in the race of a new era.

Much of my agenda can be accomplished simply by redirecting current funding away from bureaucracies and towards people. My agenda empowers people with the means to work, own property, build capital, raise families, and be effective contributors within our private market economy. Some of my ideas — legal and health care reforms, for example — should even help us save money.

Contrary to the assertions of some politicians and special interest groups, spending as a percentage of the nation's GDP has been going up, not down. In 1991, the Federal Government spent 23.5% of

what our nation produced. That compares with 17.6% in 1965, 19.9% in 1970, 22.0% in 1975, and 22.3% in 1980. So not only has Government grown as the economy has grown, but Government is taking a bigger share. The American people are not taxed too little. The American Government spends too much.

In my acceptance speech I noted some of the efforts I will make to hold down spending. I have proposed capping the growth of mandatory spending, other than social security. That would still permit spending at present levels plus an adjustment for inflation and population growth. Yet this cap would save \$294 billion over five years.

To start to implement this cap, I have proposed over \$72 billion in specific spending cuts for "mandatory" programs (FY93-97). If you add these proposed cuts to others I have previously called for but which Congress has not yet enacted, my specific cuts would total about \$132 billion over five years. I have also proposed the outright elimination of 246 specific discretionary programs.

By way of comparison, my opponent has specifically proposed less than \$5 billion in

cuts in mandatory programs. And he has singled out only one program for elimination — the honeybee subsidy program, which his running mate voted four times to retain.

Furthermore, I proposed freezing all other spending, and I will enforce this freeze by vetoing any bill Congress sends me that spends more than I asked for in my budget.

I've asked Congress for the line item veto, a disciplinary tool used effectively by the governors of 43 states. This veto authority is important not only to help cut, but to increase a President's leverage with a Congress that seeks to tax more and spend more.

Government should be subject to the discipline of a balanced budget amendment. State governments operate that way. Businesses operate that way. Families operate that way. And given the breakdown of Congressional discipline, we need an amendment to ensure that the Federal Government operates that way, too. If we had had such an amendment years ago, we wouldn't be paying almost \$200 billion dollars a year now on interest for the debt left us by earlier Congresses.

I also believe taxpayers should have the right to direct 10% of their tax payments to reduce debt and spending through a "check-off" on their tax forms. If all taxpayers took the full 10%, the cut would be about \$50 billion. That's only 3% of the Federal budget of about \$1.5 trillion. Since federal spending has been growing at a rate of about 8% per year, even this proposed cut would still enable spending to grow; it would just grow more slowly.

Some editorialists dismiss my checkoff proposal, but the American people seem to like it, and I think I know why. My proposal traces its roots to an American tradition. At the turn of this century, many people were concerned that the Government establishment was slipping away from the people it was supposed to serve. This movement led to such venerable "gimmicks" as referenda, the right of recall, and the direct election of U.S. Senators. The idea of term limits for Senators and Congressmen, which I fully support, is another reform of this type. At the time each was proposed, the conventional thinkers chuckled at the changes. The same is true today. Given the complete breakdown in spending discipline in Congress, it's time

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that we insist on compensating reforms that give the people a bigger say in the direction of Federal Government spending. I say it's time to give the people the power to cut the deficit.

The size and structure of the Government also needs to be slimmed down and changed. The organization of the Federal Government reflects ways of doing business that are now 30 to 50 years old. Companies all across America have been restructuring, cutting costs, becoming more efficient — preparing to be more competitive in a fast-changing marketplace. I believe the Federal Government can and should do the same thing. I believe a streamlining of the Federal Government should include three elements:

First, I will cut the operating budget of the Executive Office of the President by 33% if Congress agrees to subject its operations to a cut of the same size. With fewer Congressional staffers badgering the Executive Branch, I know we can cut costs by that amount. Second, I believe all federal employees earning above \$75,000 a year should be subject to a 5% pay cut; other Americans have tightened their belts, and so should the better-paid federal work-

ers. Finally, I believe we can restructure and reduce the size of the Executive Branch through a consolidation of agencies and bureaus that will enable us to do our job better. Why should the Federal Government be the only large organization in America that continually adds size and offices, and never gets rid of anything? Therefore, I will submit a streamlined reorganization plan for the Executive Branch to the new Congress — and I hope they take the hint, too.

Let me give you an example. In many respects, the Arms Control and Disarmament Agency, or ACDA, is a creature of the Cold War. It needs to adapt to the times. Its highly trained scientists and engineers are a valuable resource. Some of them can support our efforts to stem and reverse the proliferation of weapons of mass destruction. But others may be well suited to work at weapons destruction and defense conversion — transforming the genius of modern day swords into 21st Century plowshares.

Multiply this idea by a hundred, or even a thousand, others. We can get rid of some tasks, conduct others more efficiently, and add new ones where appropriate to support

my agenda.

I also am committed to reducing the tax burden on the American people. I have said that I will propose to further reduce taxes across-the-board, provided we pay for those cuts with specific spending reductions that I consider appropriate, so that we do not increase the deficit.

To illustrate the kinds of tax cuts we could achieve if we discipline spending: just consider what we could do if Congress acted on the \$132 billion in specific spending reductions that I have already proposed. These savings alone could finance an across-the-board rate cut of 1 percent, a reduction of the small business tax rate from 15% to 10%, an increase in small business expensing of investment in equipment, and a reduction of the capital gains tax.

In sum, my direction is clear — I want to spend less and tax less. My opponent wants to spend more and tax more.

I believe the Federal Government can reallocate its almost \$1.5 trillion in spending more effectively if we implement my agenda. The reductions in defense spending that we have already begun

will provide some of these funds, and I don't want them wasted in a torrent of new spending programs designed by a horde of special interests.

I honestly believe that this is the only way to get the size and spending of Government under control. I know that serious-minded people believe we need to increase revenues to close the deficit. But it won't work. I have seen too many times that efforts to close the deficit by increasing taxes have only turned out to give Congress a license to spend more money. There's a reason for this. Spending is power for Congressmen. That's how they show influence, and placate their friends, the interest groups. If you give Congressmen more tax money, they will spend it.

XI. A Strategy for Implementation

This year is an important turning point for the United States. We are entering a new era, and for the first time in many years, it appears that Congress will have 150 new faces for the President to work with. That's why I'm asking for a mandate for my program. That's why I have promised that I will meet with all new

members — all 150 or more — before they are besieged by the special interests and permanent staffs.

I also believe we need to take another step to ensure that the new Congress does not become like the old one. The root of the present problem is political contributions from organized special interests through political action committees, or PACS. In the run up to the 1980 elections, PACs raised and contributed \$55 million to political candidates. In the same time period before the '90 elections, PACs spent about \$160 million. The other party doesn't want to do anything about it, because they are the biggest recipients. I want to put them to the test. I want a new Congress to stay clean. So an important part of my new legislative agenda will be a simple bill to abolish PACs subsidized by corporations, unions, and trade associations.

I am committed to making my program work with Congress. Between the election and the convening of a new Congress, I will lay out an implementation plan for my agenda. I intend to be ready to present the new Congress a first-year plan to carry out the legislative proposals described in this agenda:

"Between the election and the convening of a new Congress, I will lay out an implementation plan for my agenda. I intend to be ready to present the new Congress a first-year plan to carry out the legislative proposals described in this agenda."

- A radical overhaul of American education to emphasize excellence, standards, competition, entrepreneurial schools, and a "G.I. Bill for Kids" that will give parents a choice of schools
- My job training programs
- My health care reforms
- A package to cut spending, including a cap on the growth of mandatory spending, a taxpayers' "checkoff" to reduce the debt, a line-item veto, and a balanced budget amendment
- Tax cuts paid for through spending reductions and growth, including reductions to spur entrepreneurial capitalism and small business
- NAFTA
- New trade negotiating authority so we can conclude new Free Trade Agreements across the Atlantic, the Pacific, and in our own hemisphere
- A Government reorganization plan to streamline the

structure, ensure functions fit new needs; and cut salaries at higher levels

- Reform of our legal system
- A package to clear away crime, build business, and put people to work in our inner cities
- An expansion of Civilian R&D linked to new applications
- Ban on PAC contributions
- Limits on Congressional terms

Now I know I may not be able to get everything I want in the exact way I want it. But your support for a mandate to get it done would give me momentum. I intend to fight for this agenda, fight as hard as I can to get as much as I can, and then come back again to get more.

If Congress hesitates on some fronts, I intend to keep moving forward. You have seen that we can implement back-to-work welfare reform by granting waivers that enable the states to do the job more effectively. Similarly, 44 states and more than 1700 communities have started to

implement my educational reforms while Congress has stalled. We can get a great deal done at the state and local levels.

I will work with governors, state legislatures, local governments, and the private sector to pursue my agenda. While I want a Congress that can help me do the job, I'm committed to getting the job done one way or the other.

This is my Agenda for American Renewal. With the end of the long Cold War, we can target peace, prosperity, and promise at home. The American people want that. The American people deserve that.

At the same time, Americans recognize that the great events of recent years have shaken the world, and it will never be the same. If we are to succeed as a nation and as a people, if we are to hold true to all that has made America "the last, best hope of earth," then our renewal at home must at the same time enable us to make the 21st Century another American Century.

My Agenda draws together our people and our Government to take on this challenge. We will create a \$10 trillion economy. We will renew America. We will win the peace.

My approach to this challenge is fundamentally different from my opponent's. I want to stimulate entrepreneurial capitalism. I want to help people by enabling them to make their own decisions about health, education, job training, and child care from a variety of competing alternatives. I want to supply services through the private sector. I

believe people should sue each other less and care for each other more. I want Government to spend less and tax less. I will fight without hesitation for a free and fair flow of trade, capital, and ideas around the world. I believe America should compete, not retreat.

I know times have been difficult for too many Americans. I have sought to explain the causes of these problems and what I will do about them. Of course you will have change. The question is what kind of change. You face a serious choice. And I ask, when you step into that voting booth, please consider carefully which candidate's agenda for change fits best with your beliefs, America's experience, and our hopes for lasting peace and prosperity.

"With the end of the long Cold War, we can target peace, prosperity, and promise at home. The American people want that. The American people deserve that."



1030 15th Street, NW
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Office of the Press Secretary
(Detroit, Michigan)

For Immediate Release

September 10, 1992

REMARKS BY THE PRESIDENT
TO THE DETROIT ECONOMIC CLUB

Cobo Hall
Detroit, Michigan

1:00 P.M. EDT

THE PRESIDENT: Thank you all very, very much. Good morning to everyone. And, Governor Engler, I'm proud to be with you, sir, and thank you for that kind introduction. Greetings to Chick Fisher, your Chairman, and Jerry Warren, both of whom have been most hospitable to me. I've been here several times before this most distinguished American forum and I'm delighted to be back.

This morning I am here for a very serious speech, serious business. And I'm releasing today an agenda for the American renewal. And I've come here today to introduce it to you and to the nation.

My agenda diagnoses the economic problems our nation faces, lays out the principles that should guide us in the years ahead, and explains the integrated approach that I am pursuing to meet the challenge.

Over the past weeks I have been discussing certain elements of my economic agenda, and in the weeks ahead I will be expanding on those and other ideas. The document that I'm releasing today shows how the pieces all fit together.

But let's begin this morning by stepping back, taking stock of where we are as a great nation in the broader sweep of history.

The American people have just completed the greatest mission in the lifetime of our country -- the triumph of democratic capitalism over imperial communism.

Today, this year, for the first time since December of 1941, the United States is not engaged in a war, hot or cold. Throughout history, at the close of prolonged and costly wars, victors have confronted the problem of securing a new basis for peace and prosperity. The American people recognize that we stand at such a watershed.

We sense the epic changes at work in the world and in the economy, the uneasiness that stirs the democracies who served as our partners in the long struggle.

We feel the uneasiness in our own homes, our own communities; and we see the difficulties of our neighbors and friends who have felt change most directly.

And we know that while we face an era of great opportunity, we face great risks as well -- if we fail to make the right choices, if we fail to engage this new world wisely.

But America has always possessed unique powers, and foremost among them is the power of regeneration -- to transform

MORE

uncertainty into opportunity. Only in America do we have the people, the talents, the principles and ideals to fully embrace the world that opens before us.

For America to be safe and strong, we must meet the defining challenge of the 1990s: to win the economic competition -- to win the peace. We must be a military superpower, an economic superpower, and an export superpower.

My agenda for renewal asks that we look forward -- to open new markets, prepare our people to work, strengthen our families, save and invest so that we can win. Our renewal depends on economic growth -- but growth not for the few at the expense of the many, not for the present at the expense of the future.

In our country we've always prized an entrepreneurial capitalism that grows from the bottom up, not the top down; a prosperity that begins on Main Street and extends to Wall Street -- not the other way around.

That's the lesson I learned as a young man, packed up a Studebaker and moved to Texas after another war, at the start of another era. I saw jobs, prosperity -- an entire future -- built with the hands of ordinary men and women with extraordinary dreams.

Our nation has never been seduced by the mirage that my opponent offers -- of a government that accumulates capital by taxing it and borrowing it from the people -- and then redistributing it according to some industrial policy. We know that the clumsy hand of government is no match for the uplifting hand of the marketplace.

My international economic and trade strategy will guarantee our position as an export superpower, extending our global economic reach in tandem with our security presence -- to stretch beyond our borders so that we can create more jobs within our borders.

At the same time, we need to foster at home the capabilities that will keep us in the lead: radical changes in our education system to prepare our children for a constantly changing workplace; incentives for the entrepreneurs and new technologies to sharpen our competitive edge; job training, health care reform, to promote the economic security of our working men and women; and new approaches for reaching out to those who have been left behind, since in the century ahead we will need the talent and the energy of every single American.

And finally, because our greatest strengths flow not from government but from the personal initiative of free men and women, my agenda aims to check the growth of government, and, in some important ways, to reverse it. Together, the components of this new agenda should renew America according to her most cherished principles.

And this renewed America will be empowered toward a grand goal: to nearly double the size of our economy, to \$10 trillion, by the early years of the next century.

To place this agenda in a larger context, let me turn briefly to five profound changes now at work in our economy. When Americans gather around the kitchen table at night and talk about how they'll meet a mortgage, or pay the doctor's bill, they're feeling these changes in their daily lives. And before the changes have run their course, they will have forever altered the way Americans buy and sell, work and create.

The first great change in our economy is ironically caused by our very success in ending the Cold War. In the short run, deductions in defense spending have meant painful lay-offs in

MORE

many industries, and we are taking steps to ease this transition. But in the medium and long run, deductions in defense spending will free up priceless skills and technologies for peacetime growth.

Second, most of our industries are transforming themselves from old-style hierarchies into flatter organizations, with fewer layers between customer and executive. The new organizations emphasize a skill-based workforce, "lean production," and shorter production cycles. From castings to computers, this is a revolution as dramatic as the one made earlier this century, when Henry Ford led the country from craft-based production to mass manufacturing.

While these changes are essential to maintaining our competitive edge, they've come with a cost; everyone in this room knows that -- lay-offs, cutbacks among both white- and blue-collar workers. These hard-working people need reassurance -- not only about their economic security, but about preserving the sense of self-worth that only work can provide. The third change: While the 1980s brought us the greatest peacetime expansion in our history, the boom also led too many of us to take on too much debt. We have been paying that down, that debt -- and lower interest rates have helped us do it. The process is largely over, but consumers and companies remain cautious.

The fourth change involves our financial system. We entered the '80s with a 50-year-old banking system, designed for the days when tellers wore green eye-shades, not for an era when billions -- billions of investment dollars can cross borders at the speed of light.

In the late '70s, record interest rates and inflation rates rocked this anachronistic system. The less efficient institutions could not survive, obligating the federal government to protect the savings of millions of Americans.

Now, this process of paying debt down is nearing its end. Our financial system will become more flexible and efficient. But for now, lenders are cautious and, despite low interest rates, small business still can find it hard to get the credit.

But the most far-reaching of these five changes is the emergence of a global economy. No nation is an island today. One out of every six manufacturing jobs is directly tied to exports. The crops sown from one out of every three acres of farmland are sold abroad.

Consider some implications of the global economy: when growth slows abroad, as it has recently, our own growth slows as well. And America will only grow in the next century if we can compete globally -- in every part of the world. So we must seize every opportunity to open new markets, particularly those with the greatest potential for expansion.

Now, in drafting an agenda for America's future, we had to assess our strengths as well as our weaknesses. Conveniently, the other side has discovered many weaknesses and very few strengths. And, of course, they might find temporary political gain in portraying an America as past her prime, over the hill. But they have no more right to argue, for partisan purposes, that our economy is weaker than it is, than I have to understate our problems.

Our strengths are real. Now, here are some facts. The Misery Index -- the sum of inflation and unemployment -- is 10.8 percent, down from 19.6 Percent in 1980. Inflation stands at about three percent. Interest rates are at a 20-year low. The purchasing power of Americans gives us the highest standard of living in the world. We enjoy the highest home ownership rate of all major industrialized countries. And we send 68 percent of our

children on to higher education -- more than any other country -- and well above Germany's 32 percent and Japan's 30 percent. And with 5 percent of the world's population, we produce 25 percent of the world's total output -- and 37 percent of its high-tech products.

Now, I don't mean to suggest that all is well -- that we don't need to lead and manage the changes that are transforming our economy. But you can't chart the stars if you think the sky is falling down. Over the past 12 years we have almost doubled the size of our economy. It's as if we'd created two extra economies the size of Germany's from scratch.

And how will we meet our goals? Before you hear the specifics of this agenda, let me tell you a little bit about what I believe -- because change, if it is to be a force for good, must be guided by principles. And the principles that must guide change are the principles that never change.

I believe we are a nation of special individuals, not special interests. Individuals draw their enduring strength from their families, from their neighbors and communities, not from the government. So I believe we must never ask government to do what families and neighbors and individuals can better do for themselves -- and for one another.

I believe -- because I've seen it -- economic growth comes from the small businesswoman who takes a risk on a new product, from the computer hacker working in a garage, in a cluttered way; from the merit scholar in South L.A., South Central L.A. with a future as big as his dreams.

And I believe government owes it to them, and to you, to keep tax rates low and make them even lower; to keep money sound; to limit government spending and regulations; and to open the way for greater competition, and freer trade.

But I do not believe, as some might, that government's obligation ends there. As a conservative I believe that government can help people -- offer them hope and opportunity -- by giving them the means and the confidence to make the decisions that matter in life.

My background has also prepared me for the task of bringing our foreign policies and our domestic policies together; to turn our strength as a world power to our advantage as an economic power; to match the security we feel militarily with the economic security that we must build at home. From now on, if America is to lead the world, we need a leader who knows the territory.

My agenda for American renewal calls for action on six interconnected fronts. There's no single cause of our present situation. There can be no single cure. The whole of our agenda will be -- must be -- greater than the sum of its parts.

First, challenging the world. During the Cold War, we built a global security structure with military alliances across the Atlantic and the Pacific. And in the same way, the post-Cold War era requires a strategic economic and trade policy -- global in scope, and built on our foundation as an economic and export superpower.

We are uniquely positioned to achieve this goal. As the largest fully integrated market in the world, we wield leverage with other countries that want access to our market. As both a Pacific and a European power, we are tied to the largest and most rapidly growing economies across both oceans. And as the strongest nation in our hemisphere, we are looked to for leadership by free economies emerging from Chile all the way up to Mexico.

The same holds true for the newly born economies of Eastern Europe and the former Soviet Union, where our values, our products, even our language, carry a unique appeal. In Moscow today, the lines at McDonald's are longer than the lines at Lenin's Tomb.

The key to America's growth, expansion, and innovation has always been our openness to trade, investment, ideas, and people. As this openness is at last being reciprocated around the world, we find ourselves again at a special advantage.

The next steps in my strategic trade policy are to secure congressional approval of the North American Free Trade Agreement and to complete the global trade negotiations, the GATT round, creating high-wage American jobs and expanding the pool of customers hungry for the fruits of American labor.

Let me emphasize: these agreements are steps, not ends in themselves. And so I want to announce today that it is my goal to develop a strategic network of free trade agreements -- with Latin America; with Poland, Hungary and Czechoslovakia; and with countries across the Pacific. And then, as these external barriers fall, I believe we can help reduce internal barriers to competition as well -- in North America, Western Europe, Japan, and elsewhere. Greater competition will encourage entrepreneurial capitalism at the expense of government power and entrenched interests, spurring unprecedented economic growth.

Traveling around the country I've seen it happen already -- particularly in some small businesses, as they strengthen themselves for international competition. A couple of weeks ago, in St. Louis, I visited Public Safety Equipment -- they're a company -- they make the light-bars that you've seen on police cars. The president of Public Safety told me that a few years ago, they recognized they could no longer just sell their products in 50 states, leave it at that. And so they took on the world. And now 35 percent of what they make is sold in 48 countries, creating good jobs right here in the United States of America.

Public Safety, and the hundreds of thousands of companies like it, offer a glimpse into the future I see for all American business. But a business is only as efficient, as resilient as innovative, as the people who keep its books and build its products and devise its strategy. Materials, machines, methods -- they'll come and go, but the American worker will remain the key to our economic security.

That brings me, then, to the second part of our agenda: preparing our children.

The workplace of the 21st century will be constantly changing. I've heard that from many businesspeople sitting right here at the tables in this hall. We must prepare the American people for a lifetime of learning, to keep a step ahead of that process of change. Now, developed nations need developing minds. The burden will fall on our educational system. As in the past, education should be the ladder that children can climb to better themselves.

Our current school system is not up to the task. Designed for the 19th century, it will collapse under the weight of the 21st. And our educational establishment is caught in the same time warp, where standing still means falling behind.

Money alone is not the answer -- the United States already spends more per pupil than any other country but Switzerland. The answer is a radical overhaul of the system itself. If we want to change our country, we've got to change our schools.

The catalyst for change -- the one reform that drives all others -- is school choice, giving children scholarships so that

all parents have the freedom to choose which schools will best serve their children. Competition is the principle that must underlie education reform, to break the establishment's monopoly on the system. And competition will not work unless parents are allowed to choose their children's schools -- whether it's the public school across town or the parochial school across the street. (Applause.)

Consider just one statistic: in Chicago, 46 percent of public school teachers send their children to private schools. Clearly they know something about monopoly education that my opponent doesn't. Our different approaches to education reform reveal the grand canyon that divides me and my opponent. You see the same contrast in child care, or health care, and a host of other issues. My opponent prefers uniformity to variety and choice, relying on these government bureaucracies to offer "one-size-fits-all service." I don't want to pull everyone down to make everyone equal. I want to give everyone the tools to climb as high as they can dream.

Even as we fix our schools, the question remains: will there be good jobs for the kids? And that's the third part of my agenda: sharpening businesses' competitive edge. I learned my economics the way most of you did -- a lot of late nights sweating over a balance sheet, or P & L statement, trying to meet a payroll. And I saw that if people are allowed to keep more of what they produce, they will produce more. It's common sense.

When capital is taxed lightly, there's more of it. And when it is taxed heavily, it becomes scarce -- available only to those who are already wealthy, who need it least of all. That's not the kind of economy that I want.

And if capital were more abundant, labor would be more in demand, wages would rise, unemployment lines would shrink. That is the kind of economy that I want. And that's why I want enterprise zones in our inner cities and in our rural areas. That's why I want to make this research and development, this R & D tax credit permanent. And that's why I want to cut the capital gains tax and index it for inflation. (Applause.)

Those are the fundamentals. I also see three other ways to sharpen the competitive edge of American business:

- first, strengthening small business, by cutting taxes, making sure that credit is available, and by lifting the deadweight of government regulation;

- second, supporting civilian R & D, by bringing the development, production and marketing of technology closer to the consumer;

- and third, reforming our legal system. Every year American business and consumers spend up to \$200 billion just in direct costs to lawyers -- far more than our competitors in Japan and Europe. And my product liability reform and access to justice act will restore rationality to the system and stop undermining the American worker. (Applause.)

This is a fact: We will never lead the world in the 21st century until we learn to sue each other less and care for each other more. (Applause.)

The fourth part of my agenda: promoting economic security -- for working men and women.

Again, common sense shows the way: true security will come only by developing individual capability, not dependency. And that independence, in turn, comes through the private sector, not the government.

Government's role will be to ease individuals' adjustment to a fast-changing marketplace. The average worker today will change jobs, it's estimated, 10 times over the course of his or her working life.

So we need a wider and more flexible range of job training and placement services -- for both the young and old, the blue and white-collar worker, and now especially for our workers from the defense industries.

Pensions must be portable -- and health care must be affordable. Our health care system today, I think everyone here would agree, provides the best care, but at an unacceptable price. More than thirty million Americans have no health insurance. Health care costs are the fastest-rising part of our budget for government, businesses, and yes, families.

My reforms get to the base of these problems while preserving and building on our system's strengths -- our state-of-the-art care, openness to innovation, and consumer choice. Taken together, my reforms cut health care costs by \$394 billion over five years.

My opponent's plan could eventually place a full 13 percent of our economy under the control of the federal government -- meaning more bureaucracy, rationed care, inefficient service and, in the end, higher costs.

We must enhance competition and market forces, not restrict them; we must preserve individual choice, not hand decision-making over to centralized bureaucracies; we must reduce the burden on employers and employees, not bury them in a tide of new taxes and government regulations. (Applause.)

The programs I've outlined and that are detailed in this agenda are based on the principles that will empower all Americans to make their own choices and better their lives. But I believe we need to do more for some of our citizens who have been left behind. And that is the fifth component of this agenda: leaving no one behind.

The American Dream is nothing more than the belief that all Americans can make a better life for their children. The dream has made us the most dynamic society in the world; it's yet another strength we can draw upon for the challenge ahead. And so we must give every American a shot at making good on the dream.

And I reject the shopworn logic that sees poverty as a simple lack of income -- a kind of economic shortfall that can be replaced with a government check. A conservative philosophy of empowerment must have at its foundation the creation of character, through the ownership of property, through the dignity of work. That means sweeping away the nightmare of crime from our cities, building a core of property owners, creating business incentives, and making individual discipline and self-reliance the goal of all of our programs

I call the final component of my agenda -- "rightsizing government."

You'll recognize that I take the term from the business world -- which has a lot to teach those of us in government. At a time when companies across the country have been restructuring, increasing efficiency -- all to prepare for the economic competition of tomorrow -- the federal government faces an obligation to do the same. (Applause.)

Today the federal government spends nearly twenty-four cents of every dollar -- twenty-four cents of every dollar of the nation's income. And that's the fact: government is too big and

spends too much. The size and structure of government are relics of a different age -- artifacts more suited to the dilemmas of 50 years ago than the problems of today. Every institution in our society has learned that by pushing power down through organizations, by using technology to speed the flow of information, you don't just save money, you improve productivity. It's time for the government to do the same.

I will streamline government -- consolidating agencies, tightening budgets, and cutting the salaries of highly paid federal employees. And I'll start by cutting the White House budget 33 percent if the Congress cuts its own budget by the same amount. (Applause.) You might say: Why the linkage? Well, with fewer congressional staff badgering us for endless reports and endless visits to Capitol Hill, I know we can cut costs by that amount. (Applause.) And I'll cut the salaries of all federal employees earning more than \$75,000 by 5 percent. Taxpayers have tightened their belts. The better-paid federal workers should do the same.

The agenda I publish today contains specific proposals to cut the fat: a cap on the growth in mandatory spending -- without touching social security -- and a freeze on domestic spending; a balanced budget amendment, a line-item veto -- (applause) -- and a new mechanism -- disciplinary mechanism -- a check-off box on tax returns to give the taxpayer the power to cut the deficit. I will fight to reduce spending and spur growth so we can get this budget in balance.

And unlike my opponent, I do not believe the American people are undertaxed. Quite the opposite: I am committed to cutting taxes across the board. And let me offer an example -- this is just an example -- as an illustration of what we could do: My cap on the growth of mandatory spending allows for population growth and inflation. It specifically exempts Social Security. But that cap alone, with those caveats, would save about \$300 billion over five years. If we used just \$130 billion in specific spending cuts that I have already proposed -- specific spending cuts of \$130 billion that I have already proposed -- we could cut income tax rates by one percentage point across the board; reduce the small business tax rate from 15 percent to 10 percent, and reduce the tax on capital gains.

That's the direction that I want to go: tax less, spend less, cut the deficit, and redirect our current spending to serve the interests of all Americans. I honestly believe that this is the way -- the only way -- to control the size of the federal government. The facts are painful, but plain: For congressmen, spending is power. And they will exercise that power until they have spent every last dime they can squeeze from the working men and women of America. And it's as simple as this: raising taxes won't cut the deficit.

Here, then, is my agenda for American renewal. It comes at a time unique in our history, a turning point, a moment when one era is passing away and another is being born.

In the agenda published today, you'll find 13 proposals that I intend to achieve in the first year of my second term. I present them as a single program, a unified strategy to make change work for America.

Over the last three years I've shown how America can change the world; and we've made a respectable start managing the change at home. Our primary task now is to target America.

I intend to fight for this agenda, to fight as hard as I can. With a new Congress that can have as many as 150 new members, I am optimistic. If congress balks, will move forward anyway -- just as I have done with education, regulatory and welfare reform. I'll work with our great governors, like John Engler, with the state and local governments, with the private sector -- with anyone who shares the urge to renew our country.

The American people know that the events of recent years have shaken the world. With the close of the Cold War we can achieve peace, prosperity and promise at home. The American people want that. The American people deserve that.

And I want America to seize this moment. I want to stimulate entrepreneurial capitalism, not punish it; I want to empower people to make their own choices, not yoke them to new bureaucracies. I want a government that spends less, regulates less, and taxes less. And I will fight without hesitation for a free flow of trade and capital and ideas around the world -- because Americans never retreat -- we always compete. (Applause.)

My agenda draws together our people and our government to meet this challenge. We will create a \$10-trillion economy. And we will renew America. And we will win the peace. (Applause.)

I know that times have been very, very difficult for many Americans. The world that we knew as children -- no matter your age -- will never be the same. America will change -- that's our destiny; how it will change will soon be decided.

I ask, as you consider the choice that you face, to consider carefully whose agenda for change best fits America's principles, our national experience, and our hopes for lasting peace and prosperity.

Thank you for your attention. And may God bless our great country. Thank you. (Applause.)

END

1:40 P.M. EDT

THE WHITE HOUSE

WASHINGTON

September 10, 1992

MEMORANDUM FOR THE DOMESTIC POLICY
REFORM BREAKFAST GROUP

FROM: DEAN SCHULTHEISS 
SUBJECT: Upcoming Breakfasts

Along with the passing of summer comes the renewal of our Friday breakfast series. We will be meeting again every Friday starting tomorrow, September 11. Hopefully you haven't gotten too accustomed to sleeping in!

The first item of importance is that we are once again able to hold our breakfast in the West Wing. Beginning tomorrow, please come to the Ward Room on the Ground Floor of the West Wing -- do not go to room 22. As in the past, we will commence at 7:45 and be finished by 8:45 to allow for people to make their morning staff meetings.

Secondly, with regards to Mess bills, those of you who have accounts will again be billed individually. Those without will have their meals billed to Diana Furchtgott-Roth's account. We will no longer have a continental style breakfast with standard fee so everyone is on their own. Therefore, if you don't have an account, you will need to keep track of your orders and compensate Diana accordingly as she does not receive an itemized bill from the Mess. If you need help figuring your bill, please feel free to contact me on 456-2471.

Finally, our speaker tomorrow is Charles Cooper, an attorney with the D.C. law firm Shaw, Pittman, Potts and Trowbridge and also a former assistant attorney general during the Reagan Administration. He also headed the Federalism Working Group that produced the Federalism Executive Order. Mr. Cooper most recently received attention in making a case for the President to instruct the Treasury Department to index capital gains for inflation as a way of surmounting the impasse with Congress over this issue. Two recent articles are attached for your information.

We've been in contact with a number of other speakers and will have a schedule for the next several weeks put together within a few days.

8-31-1992

Capital Gains Tax and Presidential Power

By CHARLES J. COOPER

President Bush may not be able to get Congress to go along with his proposal to cut the capital gains tax, but there is a simple action he could take on his own authority to make the tax treatment of capital gains more equitable. He could instruct the Treasury to index capital gains to inflation.

Until quite recently Congress has implicitly recognized and compensated for the effects of inflation by giving preferential tax treatment to capital gains, either by taxing them at a lower rate or by partially excluding them from taxable income. It recognized that otherwise investors would often be taxed unfairly on income that was attributable in some significant part to inflation, rather than real income, as the example in the nearby box demonstrates.

Preferential Treatment

While this kind of preferential tax status was at best a blunt tool to counter the effects of inflation, it was nonetheless recognized as such a tool. It thus largely obviated, until 1986, the need to establish a more accurate counter for inflation, such as indexation, and the president had no pressing need to take up this issue.

In 1986, however, the Tax Reform Act ended preferential treatment for capital gains, taxing them at the same rate as ordinary income. Although bills providing for indexing have passed at different times over the past decade in both houses of Congress, none has been enacted.

It is not surprising, then, that the question of the president's regulatory authority to index capital gains has only recently come into sharp focus. Earlier this summer I was asked by the National Chamber Foundation and the National Taxpayer Union Foundation to examine the issue. Despite initial skepticism, I have concluded that the president has the legal authority to adopt a regulation indexing capital gains.

The inquiry begins with the Sixteenth Amendment, which in 1913 authorized Congress to "lay and collect taxes on incomes." In 1919, the Supreme Court defined income as including "profit gained through a sale or conversion of capital assets."

The "profit" or "gain" as defined by the Tax Code is the "excess of the amount realized [from the sale or other disposition of property] over the adjusted basis." The "basis" of the property is defined simply as its "cost." The meaning of the word cost is the heart of the matter.

Congress has never defined cost, and

How Indexing Would Work

Consider the example of a taxpayer who bought a house for \$100,000 in 1982 and sells it for \$200,000 in 1992. Under the current tax regime, he is taxed on a "gain" of \$100,000. If, however, inflation has caused the general price level to double between 1982 and 1992, the taxpayer has not realized any increase in wealth at all; that is, there has been no increase in the value of his house. The \$200,000 he has in 1992 represents the same purchasing power as the \$100,000 he

had in 1982. The value of his asset has not increased; it has merely kept pace with inflation. In fact, the taxpayer is worse off than if he had not bought the house, since the tax on its sale will eat into his nominal gain.

If the capital gains tax were indexed to inflation, the taxpayer would be taxed just on that portion of the gain above inflation. To use the same example, if he sold his home for \$220,000, he would pay tax on only \$20,000, the portion of the sale price above inflation.

until 1957 neither did Treasury regulations. In practice, however, Treasury has always interpreted cost to mean the amount, in nominal dollars, paid at the time of purchase. Regulations issued in 1957 formalized this interpretation. Treasury's interpretation of cost as purchase price is no doubt a reasonable one. The critical question, however, is whether it is the only reasonable interpretation.

Under our system of separated powers, the executive branch has the initial responsibility of interpreting the laws that Congress makes. Unless clearly forbidden by Congress, Treasury can interpret the Tax Code to define cost as adjusted for inflation; that is, it can index capital gains.

It is important to stress that the question at hand is not whether a court would conclude that indexation is required under the Tax Code. Rather, the question is whether a court would conclude

that a Treasury regulation indexing capital gains was based on a permissible reading of that statute. While Treasury has consistently interpreted the cost of a capital asset to mean the asset's original purchase price, this definition is not required by law. Nothing in the legislative history of the past 75 years suggests that Congress intended to deny Treasury this sort of interpretive discretion.

The right of executive branch agencies to "fill any gap left, implicitly or explicitly, by Congress" in a statute was articulated in 1984 in *Chevron U.S.A. v. National Re-*

sources Defense Council. Under *Chevron*, in order to reject an executive-branch interpretation the courts must decide "whether Congress has directly spoken to the precise question at issue." There is no doubt that, in the matter of the cost of a capital asset, Congress has never spoken.

Next, says the *Chevron* decision, "if the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency's answer is based on a permissible construction of the statute." It is permissible, the court said last year in *Rust v. Sullivan*, as long as "it reflects a plausible construction of the plain language of the statute and

does not otherwise conflict with Congress' expressed intent."

Construing cost to include the effect of inflation is at least as plausible as Treasury's purchase-price interpretation. The only difference between the two interpretations is that

the former measures cost at the time the capital asset is sold, while the latter measures cost at the time the asset was purchased. Ask any homeowner how much his house cost, and he will tell you what he paid for it—and when he bought it.

Even so, a new Treasury regulation changing the definition of cost from nominal dollars to inflation-adjusted dollars would certainly be a sharp departure from past practice, and some have argued that Congress's failure to enact indexing legislation amounts to a *de facto* ban. Quite apart from the general point — reiterated

Unless clearly forbidden by Congress, Treasury can interpret the Tax Code to define cost as adjusted for inflation; that is, it can index capital gains.

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by the Supreme Court in *Patterson v. McClean Credit Union* (1989) — that "congressional inaction cannot amend a duly enacted statute," the argument is particularly weak here.

Nowhere in the legislative history of these proposals did Congress address the precise issue of the meaning of cost, let alone endorse Treasury's purchase-price interpretation. To be sure, by failing to enact the proposed amendments, Congress elected not to require Treasury to index capital gains. But Congress in no way indicated that Treasury was not permitted to do so.

In other words, if Congress left any gaps in the statutory meaning of cost prior to its consideration of indexation amendments, those gaps were not closed when it failed to exercise its own discretion to amend the statute. By failing to fill in the gap in the meaning of cost, Congress did not extinguish Treasury's discretion to do so. Again, the Supreme Court has made it abundantly clear that executive-branch agencies are entitled to considerable deference in interpreting statutes they administer.

In *Rust v. Sullivan* the Supreme Court upheld the new Health and Human Services regulations forbidding clinics that received federal money from offering abortion counseling. That such regulations "reverse a longstanding agency policy . . ." and thus represent a sharp break from the secretary's prior construction of the statute" was deemed insufficient grounds for forbidding them. Under *Chevron*, it said, HHS was entitled to modify regulations so long as the change was supported by a "reasoned basis."

A Reasonable Interpretation

In short, Congress has for more than seven decades left undefined the term "cost" in the capital gains section of the Tax Code. The traditional definition of cost as the nominal dollars spent at the time of purchase can be changed by the Treasury to reflect a more realistic method of computing the "gain" that an investor reaps from the sale of his property. This is at least as reasonable an interpretation of cost as the one traditionally used, and thus entitled to deference by the courts.

The president can correct this serious deficiency in the way our tax laws are applied today, if he wishes. And if Congress objects, it can pass a law outlawing indexing.

Mr. Cooper, a Washington attorney, was an assistant attorney general in the Reagan administration.

Capital Gains, as Seen by Congress in 1918

By CHARLES J. COOPER

Can the president order the Treasury Department to index capital gains to inflation? I outlined the legal argument for that position in an article on this page Monday. The Justice Department, however, in considering whether the president has that legal authority, believes the answer is "no," citing the 1918 House debate on the Revenue Act.

In that legislation, Congress defined the "basis" for measuring capital gains as the "cost" of capital assets. Some administration lawyers argue that the comments of the legislators back then make it clear that Congress understood cost to mean the asset's purchase price. It follows, they conclude, that Treasury has no administrative authority to interpret cost to include anything other than purchase price, such as inflation.

Specifically, they cite the debate surrounding a Rep. Hardy's proposal to delete the capital gains provision entirely. Hardy objected to the capital gains tax on several grounds, including the unfairness of taxing inflationary gains. As he put it, "In simple principle and policy, a piece of property bought in 1913, if its exchange value today is to be equal to its exchange value when it was bought, must bring in dollars and cents something like two times what it cost."

While several congressmen spoke in opposition to Hardy's proposal, none disagreed with his point about the unfairness of taxing inflationary gains. And since his proposal would have eliminated taxation on all capital gains, not just those attributable solely to inflation, the House's rejection of his proposal can hardly be construed as a determination that inflationary gains should be taxed.

Some of the comments made in opposition to Rep. Hardy's proposal, however, echoed Rep. Hardy's comment that taxable gain is measured by simply subtracting the asset's purchase price from its sales price. For example, to emphasize his point that an increase in value cannot be measured until the property is actually sold, Rep. Kitchin, chairman of the House Ways and Means Committee, stated: "If you bought a ship in 1916 for \$100,000 and sell it in 1915 at \$200,000 or if you bought Bethlehem stock . . . in 1915, your income is the difference between the purchase and selling price and that is the only rule under which you can administer the law."

Similarly, another opponent of Hardy's proposal, Rep. Fordney, argued that the value of an investment "is what you paid for it, and when you sell it this year the difference between what you paid for it and what you get for it is profit, and on that you pay an income tax. That is the law. I cannot make it any plainer than that."

These statements are unequivocal, and if the legislative history of the 1918 Tax Code ended here, they would indeed provide a firm basis for inferring that at least some members of the House understood and intended cost to mean purchase price,

plain and simple. But if one reads on, the debate gets more sophisticated, and both Reps. Fordney and Kitchin acknowledged that in measuring taxable gain on the sale of property, costs in addition to purchase price are included.

For example, Rep. Fordney stated: "If you bought a piece of property five years ago for \$100,000, and you sell it today for \$25,000 more than you paid for it, your profit over and above the purchase price is \$25,000, and you have a profit of \$25,000. Now, you may charge up against the \$25,000 profit the taxes which you have paid on that property at the time you purchased it until the time you sold it, or you may charge up any other expenses which you have been put to in maintaining or looking after that property, and the net profit is the difference between all those costs and the price you obtained for it." Later in the debate, Rep. Fordney added the interest paid on a mortgage to the list of costs of the capital asset.

Equally illuminating are Rep. Kitchin's comments concerning a proposed amendment requiring that the cost of improvements to property, among other things, be included in determining the property's cost basis. The proposed amendment was rejected, but not because of disagreement on the proposed treatment of improvements. To the contrary, opponents of the amendment acknowledged that Treasury had always, and quite properly, included the cost of improvements in determining an asset's cost basis, despite the absence of any statutory provision authorizing such an adjustment.

Indeed, Rep. Kitchin cited his own experience in selling a farm, noting that "the permanent improvements that I had put on were added to the purchase price of my farm" in determining its costs for capital gains purposes. To punctuate his point, he produced the relevant Treasury tax form, which specifically provided that an asset's cost basis be adjusted for both improvements and depreciation.

The legislative history of the 1918 capital gains provision, when read as a whole, is thus significant for two reasons. First, despite isolated statements implying that cost is limited to purchase price, the full debate shows that the legislators understood that the cost of a capital asset included items other than the asset's purchase price.

Second, the floor debate reflects a congressional recognition that prior to 1918, Treasury interpreted the concept of cost to include items other than purchase price, such as improvements and depreciation. No one, least of all Treasury, believed that Treasury's discretion to interpret the concept of cost had been extinguished by passage of the 1918 Act.

Treasury continued to take account of economic reality in its interpretation of cost, adjusting the property's original purchase price for items such as improvements and depreciation. In a 1927 case (*U.S. v. Ludey*), the Supreme Court upheld Treasury's authority to adjust an asset's

original cost downward for depreciation, despite the fact that "none of the Revenue Acts provided" for such an adjustment. The court explicitly rejected the taxpayer's argument that cost is limited to purchase price.

In short, if the House's rejection in 1918 of an amendment expressly including the cost of improvements in an asset's cost basis did not extinguish Treasury's interpretive discretion to do so, it is difficult to see how its rejection of Rep. Hardy's proposal to delete the capital gains provision extinguished Treasury's interpretive discretion to include in the concept of cost an item such as inflation. As the Supreme Court recognized just last year in *Rust v. Sullivan*: "It is well established that legislative history which does not demonstrate a clear and certain congressional intent cannot form the basis for enjoining the regulations."

Which brings us to this final point: If there are responsible legal arguments on both sides of the issue, shouldn't the lawyers retreat from the field and free the president to make the decision that, in his view, best serves the nation's interests?

Mr. Cooper, a Washington lawyer, was an assistant attorney general in the Reagan administration.

PRESIDENT'S PLAN:
QUESTIONS RE SPENDING

8/ budget
copy of speech
researcher

Mandatory Cap

Q. How much would the President's proposed cap on the growth of mandatory spending save?

A. \$294 billion over 5 years.

Q. Does this mean that Social Security would be cut?

A. The President has specifically exempted Social Security from both the 5-year cap and from the associated enforcement mechanism (the sequester that would be triggered if the cap were exceeded).

Q. Does the cap require cuts in benefits for poor people, Medicare recipients (earning less than \$100,000), farmers (earning less than \$100,000), or veterans?

A. No. Such cuts are not required to meet the cap, and the President has not proposed them. The Midsession Review of the Budget includes an appendix with a list of options for meeting the cap. These options are from many sources. Many of them can be implemented without adversely affecting benefits for poor people, veterans, etc. (as above). Additional savings are to be achieved by implementing the President's health plan. These health savings result from malpractice reform, administrative reforms, coordinated care, and competition. Such savings would count toward meeting the requirements of the cap -- and they would not reduce health benefits for beneficiaries.

NOTE:

The Clinton health plan says health costs will not grow "any faster than the average American's income." This implies about the same rate of growth as would be called for under the proposed cap. But the Clinton health savings would be achieved by government rationing and government price controls -- rather than by malpractice reform and competition (as in the President's plan).

Tax Check-off for Debt-and-deficit-reduction

Q. How much would the tax check-off produce for debt-and-deficit-reduction?

A. If all individual income taxpayers elected the full 10 percent, it would reduce the debt and deficit by about \$50 billion in the first year.

Q. Does this mean automatic reductions in all programs?

A. No. It means the legal spending ceilings ("caps") would automatically be reduced by the amount people check off. But within those lowered ceilings, Congress and the President would still set priorities -- raising spending for some things, lowering it for others, but meeting a total spending limit that is lowered.

Q. But doesn't this mean draconian cuts somewhere?

A. The federal budget is at about \$1.5 trillion. Savings of \$50 billion would be only 3 percent of that. Federal spending has been growing at about 8 percent per year. So, even with the proposed "cut", spending could still grow; it would just grow more slowly.

New Spending Initiatives

Q. How are initiatives like the new training programs squared with the proposed restraint on spending?

A. The new training programs are not "entitlements"; they are discretionary spending. Total discretionary spending is already subject to an enforceable legal cap. The President's proposals are intended to be within the total cap. Initiatives are a reflection of the President's intended priorities within the cap. (NOTE: The new training initiatives begin in FY '94. In that year, the "firewalls" come down; and the cap is on total discretionary spending. So some domestic spending increases may be offset by defense decreases -- although others will be offset by reductions in low-priority domestic programs.)

"Specifics"

Q. Why hasn't the President proposed specific spending cuts -- in addition to the overall caps?

A. The President has proposed almost \$70 billion in specific spending cuts for "mandatory" programs (FY 93-97). (Governor Clinton has specifically proposed less than \$5 billion.) The President has also proposed the outright elimination of 246 specific discretionary programs. (Governor Clinton has specifically proposed to eliminate only one such program -- the honey bee subsidy program, which Senator Gore voted to retain.)

If specific cuts in "mandatory" programs previously proposed by the President (but not yet enacted) were combined with this year's specific cuts, they (alone) would total about \$132 billion (over five years).

Relationship to Tax cuts

Q. Isn't the promise of a tax cut tied to specific spending cuts a phony -- since specific spending cuts have not been identified?

A. More than \$130 billion in specific spending reduction has been identified and formally proposed by the President. This alone could finance an across-the-board rate cut of one percent, and a reduction in the small business tax rate from 15% to 10%, and an increase in small business expensing of investment in equipment, and a reduction in the capital gains tax.

Additional savings from the mandatory cap and the check-off (an additional 200-billion-dollars-plus) would be available for further tax relief and deficit reduction.

102d Congress, 2d Session

Economic Indicators

JULY 1992

(Includes data available as of August 4, 1992)

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[PUBLIC LAW 120—81ST CONGRESS; CHAPTER 237—1ST SESSION]

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Approved June 23, 1949.

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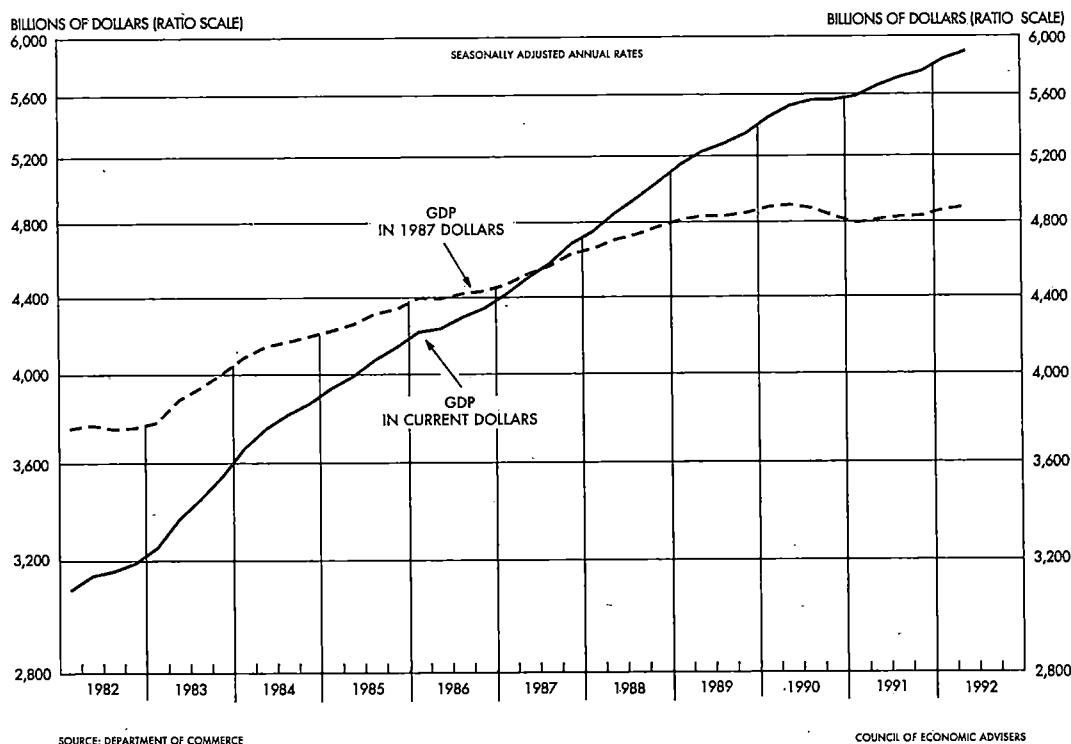
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TOTAL OUTPUT, INCOME, AND SPENDING

GROSS DOMESTIC PRODUCT

In the second quarter of 1992, according to advance estimates, current-dollar gross domestic product (GDP) rose 3.7 percent (annual rate) or \$53.4 billion. Real GDP (GDP in 1987 dollars) rose 1.4 percent and the implicit price deflator rose 2.4 percent. (Series revised.)



[Billions of current dollars; quarterly data at seasonally adjusted annual rates]

Period	Gross domestic product	Personal consumption expenditures	Gross private domestic investment	Exports and imports of goods and services			Government purchases					Final sales of domestic product	Gross domestic purchases ¹	Addendum: Gross national product
				Net exports	Exports	Imports	Total	Total	National defense	Non-defense	State and local			
1982	3,149.6	2,059.2	503.4	-20.6	282.6	303.2	607.6	266.6	193.8	72.7	341.1	3,165.5	3,170.2	3,179.8
1983	3,405.0	2,257.5	546.7	-51.4	276.7	328.1	652.3	292.0	214.4	77.5	360.3	3,410.6	3,456.5	3,434.4
1984	3,777.2	2,460.3	718.9	-102.7	302.4	405.1	700.8	310.9	233.1	77.8	389.9	3,706.1	3,879.9	3,801.5
1985	4,088.7	2,667.4	714.5	-115.6	302.1	417.6	772.3	344.3	258.6	85.7	428.1	4,014.1	4,154.3	4,053.6
1986	4,268.6	2,850.6	717.6	-132.5	319.2	451.7	833.0	367.8	276.7	91.1	465.3	4,260.0	4,401.2	4,277.7
1987	4,539.9	3,052.2	749.3	-143.1	364.0	507.1	881.5	384.9	292.1	92.9	496.6	4,513.7	4,688.0	4,544.5
1988	4,900.4	3,296.1	793.6	-108.0	444.2	552.2	918.7	387.0	295.6	91.4	531.7	4,884.2	5,008.4	4,908.2
1989 ^r	5,250.8	3,523.1	832.3	-79.7	508.0	587.7	975.2	401.6	299.9	101.7	573.6	5,217.5	5,330.5	5,266.8
1990 ^r	5,522.2	3,748.4	799.5	-68.9	557.0	625.9	1,043.2	426.4	314.0	112.4	616.8	5,515.9	5,591.1	5,542.9
1991 ^r	5,677.5	3,887.7	721.1	-21.8	598.2	620.0	1,090.5	447.3	323.8	123.6	643.2	5,687.7	5,699.3	5,694.9
1992: IV	3,195.1	2,128.7	464.2	-29.5	265.6	295.1	631.6	281.4	205.5	75.9	350.3	3,241.4	3,224.6	3,222.6
1993: IV	3,547.3	2,346.8	614.8	-71.8	286.2	358.0	657.6	289.7	222.8	66.9	367.9	3,527.1	3,619.1	3,578.4
1994: IV	3,869.1	2,526.4	722.8	-107.1	308.7	415.7	727.0	324.7	242.9	81.9	402.2	3,818.1	3,976.2	3,890.2
1995: IV	4,140.5	2,739.8	737.0	-135.5	304.7	440.2	799.2	356.9	268.6	88.3	442.4	4,107.9	4,276.0	4,156.2
1996: IV	4,336.6	2,923.1	697.1	-133.2	333.9	467.1	849.7	373.1	278.6	94.5	476.6	4,355.4	4,469.8	4,340.5
1997: IV	4,683.0	3,124.6	800.2	-143.2	392.4	535.6	901.4	392.5	295.8	96.7	509.0	4,623.7	4,826.2	4,690.5
1998: IV	5,044.6	3,398.2	814.8	-106.0	467.0	573.1	937.6	392.0	296.8	95.2	545.7	5,027.3	5,150.7	5,054.3
1999: IV ^r	5,344.8	3,599.1	825.2	-73.9	523.8	597.7	994.5	405.1	302.5	102.6	589.3	5,314.6	5,418.7	5,365.0
2000: I ^r	5,445.2	3,672.4	820.3	-72.1	541.2	613.3	1,024.7	420.3	311.6	108.7	604.3	5,437.1	5,517.4	5,464.1
2001: II ^r	5,522.6	3,715.3	833.0	-59.9	551.2	611.2	1,034.3	424.4	312.9	111.5	610.0	5,484.9	5,582.6	5,537.0
2002: III ^r	5,559.6	3,787.8	805.7	-76.3	555.9	632.2	1,042.4	422.6	308.4	114.3	619.7	5,549.2	5,635.9	5,577.8
2003: IV ^r	5,561.3	3,818.2	739.0	-67.2	579.7	646.9	1,071.3	438.3	323.2	115.0	633.0	5,592.3	5,628.5	5,592.7
2004: I ^r	5,585.8	3,821.7	705.4	-28.7	573.2	602.0	1,087.5	451.3	332.4	118.8	636.3	5,614.4	5,614.6	5,614.9
2005: II ^r	5,657.6	3,871.9	710.2	-15.3	594.3	609.6	1,090.8	449.9	325.9	124.0	640.8	5,679.4	5,672.9	5,674.3
2006: III ^r	5,713.1	3,914.2	732.8	-27.1	602.3	629.5	1,093.3	447.2	321.9	125.3	646.0	5,712.9	5,740.3	5,726.4
2007: IV ^r	5,753.3	3,942.9	736.1	-16.0	622.9	638.9	1,090.3	440.8	314.7	126.1	649.5	5,744.2	5,769.3	5,764.1
2008: I ^r	5,840.2	4,022.8	722.4	-8.1	628.1	636.2	1,103.1	445.0	313.6	131.4	658.0	5,855.9	5,848.3	5,859.8
2009: II ^p	5,893.6	4,053.8	759.8	-29.4	622.1	651.5	1,109.4	446.8	313.2	133.6	662.7	5,892.9	5,923.0	.....

¹ GDP less exports of goods and services plus imports of goods and services.

Source: Department of Commerce, Bureau of Economic Analysis.

Note.—Data revised beginning 1989 to reflect the annual revision of the national income and product accounts. See *Survey of Current Business*, July 1992.

GROSS DOMESTIC PRODUCT IN 1987 DOLLARS

[Billions of 1987 dollars; quarterly data at seasonally adjusted annual rates]

Period	Gross domestic product	Personal consumption expenditures	Gross private domestic investment			Exports and imports of goods and services			Government purchases				Final sales of domestic product	Gross domestic purchases ¹	Addendum: Gross national product	
			Nonresidential fixed investment	Residential fixed investment	Change in business inventories	Net exports	Exports	Imports	Total	Federal						State and local
										Total	National defense	Non-defense				
1982.....	3,760.3	2,503.7	433.9	124.1	-17.5	-7.4	296.7	304.1	723.6	306.0	221.4	84.7	417.6	3,777.8	3,767.7	3,796.1
1983.....	3,906.6	2,619.4	420.8	174.2	4.4	-56.1	285.9	342.1	743.8	320.8	234.2	86.6	423.0	3,902.2	3,962.8	3,939.6
1984.....	4,148.5	2,746.1	490.2	199.3	67.9	-122.0	305.7	427.7	766.9	331.0	245.8	85.1	436.0	4,080.6	4,270.5	4,174.5
1985.....	4,279.8	2,865.8	521.8	202.0	22.1	-145.3	309.2	454.6	813.4	355.2	265.6	89.5	458.2	4,257.6	4,425.1	4,295.0
1986.....	4,404.5	2,969.1	500.3	226.2	8.5	-155.1	329.6	484.7	855.4	373.0	280.6	92.4	482.4	4,395.9	4,559.6	4,413.5
1987.....	4,540.0	3,052.2	497.8	225.2	26.3	-143.0	364.0	507.1	881.5	384.9	292.1	92.9	496.6	4,513.7	4,683.0	4,544.6
1988.....	4,718.6	3,162.4	530.8	222.7	19.9	-104.0	421.6	525.7	886.8	377.3	287.0	90.2	509.6	4,698.6	4,822.6	4,726.3
1989.....	4,838.0	3,223.3	540.0	214.2	29.8	-73.7	471.8	545.4	904.4	376.1	281.4	94.8	528.3	4,808.3	4,911.7	4,852.7
1990.....	4,877.5	3,260.4	538.1	194.8	6.2	-51.8	510.0	561.8	929.9	383.6	283.3	100.3	546.3	4,871.3	4,929.3	4,895.9
1991.....	4,821.0	3,240.8	500.2	170.2	-9.3	-21.8	539.4	561.2	941.0	388.3	282.8	105.5	552.7	4,830.3	4,842.8	4,836.4
1982: IV.....	3,759.6	2,539.3	417.2	131.2	-44.9	-19.0	280.4	299.4	735.9	316.0	229.4	86.6	419.9	3,804.5	3,778.6	3,791.7
1983: IV.....	4,012.1	2,678.2	449.6	190.6	29.3	-83.7	291.5	375.1	748.1	322.2	242.9	79.3	425.9	3,982.8	4,095.8	4,046.6
1984: IV.....	4,194.2	2,784.8	509.6	198.8	47.9	-131.4	312.8	444.2	784.3	341.7	254.3	87.4	442.6	4,146.2	4,325.5	4,216.4
1985: IV.....	4,333.5	2,895.3	525.5	207.4	30.2	-155.4	312.0	467.4	830.5	363.7	272.1	91.6	466.7	4,303.3	4,488.9	4,349.5
1986: IV.....	4,427.1	3,012.5	495.5	230.5	-20.1	-156.0	342.9	498.9	864.8	377.5	282.2	95.3	487.3	4,447.2	4,583.1	4,430.8
1987: IV.....	4,625.5	3,074.7	510.6	223.3	59.9	-136.0	386.1	522.1	893.0	391.6	295.0	96.6	501.4	4,565.6	4,761.5	4,633.0
1988: IV.....	4,779.7	3,202.9	538.8	225.3	20.9	-102.7	438.2	540.9	894.5	378.4	285.7	92.7	516.1	4,758.7	4,882.4	4,789.0
1989: IV.....	4,856.7	3,242.0	536.7	208.0	24.9	-67.4	487.7	555.0	912.6	376.1	281.5	94.7	536.5	4,831.8	4,924.1	4,875.1
1990: I.....	4,890.8	3,259.5	544.8	210.7	7.5	-58.4	500.2	558.6	926.8	383.4	284.9	98.5	543.4	4,883.3	4,949.2	4,907.8
1990: II.....	4,902.7	3,260.1	535.6	201.8	32.8	-56.9	508.7	565.6	929.4	385.4	285.1	100.3	544.0	4,870.0	4,959.7	4,915.5
1990: III.....	4,882.6	3,273.9	542.9	189.1	11.2	-59.3	508.4	567.7	924.8	378.3	277.3	101.0	546.5	4,871.4	4,941.9	4,898.9
1990: IV.....	4,833.8	3,248.0	529.3	177.5	-26.8	-32.7	522.6	555.3	938.5	387.3	285.8	101.5	551.2	4,860.6	4,866.5	4,861.4
1991: I.....	4,796.7	3,223.5	507.0	164.1	-25.1	-17.9	515.9	533.8	945.1	394.1	291.8	102.2	551.0	4,821.8	4,814.6	4,822.0
1991: II.....	4,817.1	3,239.3	503.0	166.9	-20.4	-17.4	536.1	553.5	945.6	393.8	287.6	106.2	551.8	4,837.4	4,844.4	4,831.8
1991: III.....	4,831.8	3,251.2	498.7	172.6	.6	-31.6	544.2	575.8	940.2	387.2	280.6	106.6	553.0	4,831.2	4,863.4	4,843.7
1991: IV.....	4,838.5	3,249.0	492.1	177.3	7.5	-20.5	561.4	581.8	933.1	378.2	271.0	107.2	554.9	4,830.9	4,858.9	4,848.2
1992: I.....	4,873.7	3,289.3	495.8	185.6	-12.6	-21.5	565.4	586.8	937.0	375.3	265.6	109.7	561.8	4,886.3	4,895.2	4,890.7
1992: II.....	4,890.5	3,286.6	511.7	189.5	1.0	-35.9	560.0	595.9	937.6	375.6	264.5	111.1	562.0	4,889.5	4,926.4	.....

¹ GDP less exports of goods and services plus imports of goods and services.
NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

IMPLICIT PRICE DEFLATORS FOR GROSS DOMESTIC PRODUCT

[1987=100; quarterly data are seasonally adjusted]

Period	Gross domestic product	Personal consumption expenditures				Gross private domestic investment		Exports and imports of goods and services			Government purchases		
		Total	Durable goods	Nondurable goods	Services	Nonresidential fixed	Residential fixed	Exports	Imports	Total	Federal		State and local
											National defense	Non-defense	
1982.....	83.8	82.2	90.1	88.6	76.7	95.3	85.2	95.2	99.7	87.1	87.6	85.9	81.7
1983.....	87.2	86.2	92.4	90.8	81.9	95.1	87.3	96.8	95.9	91.0	91.6	89.5	85.2
1984.....	91.0	89.6	93.9	93.4	86.2	95.6	89.7	98.9	94.7	93.9	94.8	91.3	89.4
1985.....	94.4	93.1	95.4	95.9	90.8	96.6	92.0	97.7	91.9	96.9	97.3	95.7	93.4
1986.....	96.9	96.0	96.9	96.1	95.7	98.4	95.8	96.9	93.2	98.6	98.6	98.6	96.4
1987.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988.....	103.9	104.2	102.0	103.7	105.1	102.8	104.2	105.3	105.1	102.6	103.0	101.4	104.3
1989.....	108.5	109.3	104.2	109.3	110.6	105.2	107.8	107.7	107.8	106.8	106.6	107.3	108.6
1990.....	113.2	115.0	105.7	115.9	116.7	107.3	110.7	109.2	111.4	111.2	110.8	112.0	112.9
1991.....	117.8	120.0	107.6	120.1	122.8	108.2	111.8	110.9	110.5	115.2	114.5	117.1	116.4
1982: IV.....	85.0	83.8	90.6	89.4	79.0	95.3	86.0	94.7	98.5	89.0	89.6	87.7	83.4
1983: IV.....	88.4	87.6	93.3	91.8	83.7	95.0	88.0	98.2	95.4	89.9	91.7	84.3	86.4
1984: IV.....	92.2	90.7	94.4	94.1	87.7	96.4	90.7	98.7	93.6	95.0	95.5	93.7	90.9
1985: IV.....	95.5	94.6	95.9	97.0	92.9	97.3	93.1	97.7	94.2	98.1	98.7	96.4	94.8
1986: IV.....	98.0	97.0	97.8	96.3	97.3	99.2	97.3	97.4	93.6	98.8	98.7	99.2	97.8
1987: IV.....	101.2	101.6	101.0	101.5	101.9	100.7	101.5	101.6	102.6	100.2	100.3	100.1	101.5
1988: IV.....	105.5	106.1	103.1	105.6	107.1	104.0	105.3	106.6	106.0	103.6	103.9	102.6	105.7
1989: IV.....	110.1	111.0	104.9	110.8	112.7	106.0	108.8	107.4	107.7	107.7	107.5	108.4	109.9
1990: I.....	111.3	112.7	105.4	113.3	114.2	106.5	110.2	108.2	109.8	109.6	109.4	110.4	111.2
1990: II.....	112.6	114.0	105.5	114.3	115.8	106.8	110.6	108.4	108.0	110.1	109.7	111.2	112.1
1990: III.....	113.9	115.7	105.8	116.6	117.6	107.8	111.1	109.3	111.4	111.7	111.2	113.2	113.4
1990: IV.....	115.0	117.6	106.1	119.3	119.3	108.2	111.0	110.9	116.5	113.2	113.1	113.3	114.8
1991: I.....	116.5	118.6	106.7	119.4	120.8	108.7	111.3	111.1	112.8	114.5	113.9	116.2	115.5
1991: II.....	117.5	119.5	107.3	119.9	122.1	108.5	111.6	110.9	110.1	114.3	113.3	116.8	116.1
1991: III.....	118.2	120.4	108.0	120.2	123.4	108.0	112.5	110.7	109.3	115.5	114.7	117.6	116.8
1991: IV.....	118.9	121.4	108.3	120.8	124.7	107.4	111.8	111.0	109.8	116.6	116.2	117.6	117.1
1992: I.....	119.8	122.3	108.6	121.4	126.1	107.1	111.7	111.1	108.4	118.6	118.1	119.8	117.1
1992: II.....	120.5	123.3	109.4	122.2	127.3	106.8	112.1	111.1	109.3	119.0	118.4	120.3	117.9

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

CHANGES IN GDP, PERSONAL CONSUMPTION EXPENDITURES, AND RELATED IMPLICIT PRICE DEFLATORS AND PRICE INDEXES

[Percent change from preceding year or quarter; quarterly data at seasonally adjusted annual rates].

Period	Gross domestic product					Personal consumption expenditures				
	Current dollars	Constant (1987) dollars	Implicit price deflator	Fixed-weighted price index (1987 weights)	Current dollars	Constant (1987) dollars	Implicit price deflator	Fixed-weighted price index (1987 weights)		
1981	11.9	1.8	10.0	6.1	10.2	1.2	9.0	8.6		
1982	3.9	-2.2	6.2	3.8	6.9	1.1	5.7	5.4		
1983	8.1	3.9	4.1	4.6	9.6	4.6	4.9	4.3		
1984	10.9	6.2	4.4	3.3	9.0	4.8	3.9	3.7		
1985	6.9	3.2	3.7	3.5	8.4	4.4	3.9	3.8		
1986	5.7	2.9	2.6	2.7	6.9	3.0	3.1	3.0		
1987	6.4	3.1	3.2	3.1	7.1	2.8	4.2	4.1		
1988	7.9	3.9	3.9	3.9	8.0	3.6	4.2	4.3		
1989	7.2	2.5	4.4	4.4	6.9	1.9	4.9	4.9		
1990	5.2	.8	4.3	4.5	6.4	1.2	5.2	5.3		
1991	2.8	-1.2	4.1	4.0	3.7	-6	4.3	4.4		
1988: I	6.1	2.6	3.6	3.6	9.9	7.1	2.7	2.7		
1988: II	9.1	4.3	4.4	4.5	7.9	2.5	5.2	5.2		
1988: III	7.6	2.5	5.1	5.4	8.4	2.9	5.1	5.4		
1988: IV	8.1	3.9	3.9	3.7	8.9	4.1	4.7	4.6		
1989: I	8.6	3.2	5.4	5.0	5.1	1	5.0	5.2		
1989: II	6.3	1.8	4.6	4.7	7.0	1.1	5.7	5.9		
1989: III	3.8	0	3.8	3.7	6.3	2.9	3.3	3.5		
1989: IV	5.1	1.5	3.7	3.6	5.3	.8	4.4	4.3		
1990: I	7.7	2.8	4.4	5.4	8.4	2.2	6.3	6.4		
1990: II	5.8	1.0	4.8	4.6	4.8	1.1	4.7	4.4		
1990: III	2.7	-1.6	4.7	4.7	8.0	1.7	6.1	6.4		
1990: IV	1	-3.9	3.9	4.1	3.2	-3.1	6.7	6.8		
1991: I	1.8	-3.0	5.3	4.7	.4	-8.0	3.4	3.4		
1991: II	5.2	1.7	3.5	3.5	5.4	2.0	3.1	3.3		
1991: III	4.0	1.2	2.4	3.0	4.4	1.5	3.0	3.0		
1991: IV	2.8	.6	2.4	2.4	3.0	-3	3.4	3.1		
1992: I	6.2	2.9	3.1	3.6	8.4	5.1	3.0	3.5		
1992: II	3.7	1.4	2.4	1.6	3.1	-3	3.3	3.3		

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

NONFINANCIAL CORPORATE BUSINESS—OUTPUT, COSTS, AND PROFITS

[Quarterly data at seasonally adjusted annual rates]

Period	Gross domestic product of nonfinancial corporate business (billions of dollars)		Current-dollar cost and profit per unit of output (dollars) ¹					Output per hour of all employees (1987 dollars)		Compensation per hour of all employees (dollars)	
	Current dollars	1987 dollars	Total cost and profit: ²	Consumption of fixed capital	Indirect business taxes ³	Compensation of employees	Net interest	Corporate profits with inventory valuation and capital consumption adjustments	Profits tax liability	Profits after tax ⁴	Compensation per hour of all employees (1987 dollars)
1981	1,749.1	2,035.8	0.859	0.102	0.081	0.573	0.085	0.067	0.081	0.036	20.560
1982	1,803.5	2,002.1	.901	.115	.083	.606	.041	.056	.023	.033	20.827
1983	1,937.1	2,113.3	.917	.115	.086	.604	.036	.076	.028	.048	21.597
1984	2,167.8	2,285.0	.949	.109	.089	.619	.038	.094	.032	.062	21.905
1985	2,293.5	2,386.3	.970	.109	.091	.658	.038	.094	.030	.064	22.144
1986	2,391.3	2,444.3	.978	.111	.094	.650	.040	.083	.031	.052	22.737
1987	2,544.6	2,544.6	1.000	.111	.093	.659	.042	.096	.038	.056	23.472
1988	2,764.8	2,684.8	1.030	.111	.093	.676	.045	.102	.038	.064	23.472
1989	2,913.5	2,718.9	1.072	.117	.101	.706	.054	.094	.037	.057	23.058
1990	3,086.5	2,740.0	1.108	.120	.106	.737	.054	.091	.034	.057	23.108
1991	3,073.8	2,698.0	1.139	.126	.115	.759	.053	.085	.030	.055	23.563
1992	1,807.1	2,000.5	.903	.119	.085	.609	.040	.051	.020	.030	21.103
1988: I	2,038.1	2,205.2	.924	.119	.086	.604	.036	.079	.029	.050	21.905
1988: II	2,230.0	2,330.3	.957	.111	.090	.624	.041	.091	.027	.054	22.050
1988: III	2,341.3	2,399.5	.976	.110	.092	.644	.038	.092	.030	.053	22.340
1988: IV	2,495.4	2,469.0	.984	.112	.094	.655	.042	.080	.035	.043	22.691
1989: I	2,602.4	2,602.4	1.009	.110	.093	.665	.042	.099	.038	.043	22.891
1989: II	2,843.2	2,719.0	1.046	.112	.097	.687	.047	.102	.040	.050	23.428
1989: III	2,951.5	2,722.7	1.084	.130	.102	.718	.055	.088	.033	.055	23.498
1990: I	3,093.1	2,742.0	1.109	.118	.104	.724	.054	.098	.033	.060	22.952
1990: II	3,043.2	2,737.3	1.114	.121	.104	.730	.054	.098	.034	.055	23.205
1990: III	3,037.1	2,717.4	1.131	.123	.109	.744	.054	.088	.036	.052	23.062
1991: I	3,063.7	2,683.5	1.132	.126	.113	.754	.054	.084	.029	.055	23.317
1991: II	3,084.4	2,687.4	1.143	.127	.114	.760	.053	.086	.030	.056	23.500
1991: III	3,111.1	2,722.0	1.143	.126	.117	.763	.053	.084	.031	.053	23.530
1992: I	3,138.1	2,737.6	1.146	.125	.118	.760	.050	.086	.030	.056	23.858
1992: II								.093	.033	.060	24.025
1992: III											18.272

¹ Output is measured by GDP of nonfinancial corporate business in 1987 dollars.

² This is equal to the deflator for gross domestic product of nonfinancial corporate business with the decimal point shifted two places to the left.

³ Indirect business tax and non-tax liability plus business transfer payments less subsidies.

⁴ With inventory valuation and capital consumption adjustments.

*Data do not reflect GDP revisions of 7/30/92.

NOTE.—Data revised beginning 1988 to reflect the annual revision of the national income and product accounts. Earlier data are also subject to revision. See Survey of Current Business, July 1992.

Sources: Department of Commerce (Bureau of Economic Analysis) and Department of Labor (Bureau of Labor Statistics).

NATIONAL INCOME

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	National income	Compensation of employees ¹	Proprietors' income with inventory valuation and capital consumption adjustments		Rental income of persons with capital consumption adjustment	Corporate profits with inventory valuation and capital consumption adjustments					Net interest
			Farm	Nonfarm		Total	Profits with inventory valuation adjustment and without capital consumption adjustment			Capital consumption adjustment	
							Total	Profits before tax	Inventory valuation adjustment		
1983	2,720.8	2,029.4	2.4	184.3	22.1	212.7	202.2	210.7	-8.5	10.4	270.0
1984	3,058.3	2,226.9	21.3	214.7	23.3	264.2	236.4	240.5	-4.1	27.8	307.9
1985	3,268.4	2,382.8	21.5	238.4	18.7	280.8	225.3	225.0	.2	55.5	326.2
1986	3,437.9	2,523.8	22.3	261.5	8.7	271.6	227.6	217.8	9.7	44.1	350.2
1987	3,692.3	2,698.7	31.3	279.0	3.2	319.8	273.4	287.9	-14.5	46.4	360.4
1988	4,002.6	2,921.3	30.9	293.4	4.3	365.0	320.3	347.5	-27.3	44.7	387.7
1989	4,249.5	3,100.2	40.2	307.0	-13.5	362.8	325.4	342.9	-17.5	37.4	452.7
1990	4,468.3	3,291.2	41.7	325.2	-12.3	361.7	341.2	355.4	-14.2	20.5	460.7
1991	4,544.2	3,390.8	35.8	332.2	-10.4	346.3	337.8	334.7	3.1	8.4	449.5
1982: IV	2,551.5	1,940.4	10.2	169.6	24.1	150.3	160.0	168.6	-8.6	-9.6	256.8
1983: IV	2,894.3	2,101.2	6.3	193.8	22.2	229.1	216.2	223.8	-7.6	12.9	281.8
1984: IV	3,134.4	2,288.1	21.9	217.7	24.3	261.3	223.6	220.1	3.5	37.7	321.1
1985: IV	3,341.9	2,442.5	17.8	250.9	14.0	284.9	228.0	231.8	-3.8	56.9	331.9
1986: IV	3,486.0	2,582.5	23.6	260.9	4.7	264.6	225.0	235.7	-10.7	39.6	349.7
1987: IV	3,828.8	2,785.1	42.4	282.6	6.8	343.3	293.4	311.2	-17.8	49.9	368.6
1988: IV	4,127.6	3,004.9	30.9	302.5	2.8	378.3	340.5	372.2	-31.7	37.9	408.1
1989: IV	4,305.2	3,162.8	38.4	311.4	-21.6	354.5	320.6	334.1	-13.5	33.9	459.8
1990: I	4,400.7	3,223.7	48.1	319.8	-16.2	367.6	337.4	344.0	-6.6	30.2	457.6
II	4,475.3	3,281.2	43.6	322.7	-13.8	384.0	359.6	355.8	3.8	24.4	457.6
III	4,479.3	3,320.5	32.2	328.8	-9.5	351.4	334.4	367.0	-32.6	17.0	456.0
IV	4,517.9	3,339.6	42.8	329.7	-9.6	344.0	333.5	354.7	-21.2	10.5	471.4
1991: I	4,493.0	3,343.0	34.3	322.2	-12.4	349.6	344.2	337.6	6.7	5.3	456.2
II	4,529.2	3,379.6	41.3	329.1	-12.3	347.3	342.2	332.3	9.9	5.1	444.4
III	4,555.4	3,407.0	29.5	337.6	-10.3	341.2	331.9	336.7	-4.8	9.3	450.5
IV	4,599.1	3,433.8	37.9	340.0	-6.6	347.1	333.1	332.3	.7	14.1	446.9
1992: I	4,679.4	3,476.3	40.1	353.6	-4.5	384.0	360.7	366.1	-5.4	23.3	430.0
II		3,502.4	37.8	359.4	3.0				-15.2	27.9	

¹ Includes employer contributions for social insurance. (See also p. 5.)

Source: Department of Commerce, Bureau of Economic Analysis.

NOTE.—See Note, p. 1.

PERSONAL CONSUMPTION EXPENDITURES IN 1987 DOLLARS

[Billions of 1987 dollars, except as noted; quarterly data at seasonally adjusted annual rates]

Period	Total personal consumption expenditures	Durable goods				Nondurable goods						Services			Retail sales of new passenger cars (millions of units)	
		Total durable goods	Motor vehicles and parts	Furniture and household equipment	Other	Total nondurable goods	Food	Clothing and shoes	Gasoline and oil	Fuel oil and coal	Other	Total services ¹	Housing	Medical care	Domestics	Imports
1983	2,619.4	297.7	138.1	104.3	55.3	900.3	463.4	142.4	75.7	11.1	207.8	1,421.4	415.5	332.6	6.8	2.4
1984	2,746.1	338.5	160.3	115.3	62.9	934.6	472.3	153.1	77.9	11.2	220.0	1,473.0	426.8	341.9	8.0	2.4
1985	2,865.8	370.1	180.2	123.8	66.1	958.7	483.0	158.8	79.2	11.5	226.2	1,537.0	435.9	353.0	8.2	2.8
1986	2,969.1	402.0	193.3	136.3	72.4	991.0	494.1	170.3	82.9	12.1	231.7	1,576.1	442.1	366.2	8.2	3.2
1987	3,052.2	403.7	183.5	144.0	76.2	1,011.1	500.7	174.5	84.7	12.0	239.1	1,637.4	452.5	384.7	7.1	3.2
1988	3,162.4	428.7	194.8	155.4	78.5	1,035.1	513.4	178.9	86.1	12.0	244.7	1,698.5	461.8	399.4	7.5	3.1
1989	3,223.3	440.7	196.4	165.8	78.5	1,051.6	515.0	187.8	87.3	11.4	250.2	1,731.0	469.2	408.6	7.1	2.8
1990	3,260.4	439.3	192.2	169.5	77.6	1,056.5	520.8	185.9	86.4	10.1	253.4	1,764.6	474.7	423.9	6.9	2.6
1991	3,240.8	414.7	171.0	168.6	75.0	1,042.4	515.8	181.3	85.2	9.7	250.5	1,783.7	478.2	438.8	6.1	2.3
1992: IV	2,539.3	272.3	123.7	96.4	52.3	880.7	458.3	135.7	73.4	10.5	202.8	1,386.2	411.0	327.8	6.0	2.5
1983: IV	2,678.2	319.1	151.6	109.3	58.1	915.2	467.1	147.7	76.9	11.4	212.2	1,443.9	419.7	334.8	7.4	2.6
1984: IV	2,784.8	347.7	164.3	118.7	64.8	942.9	475.1	154.7	79.0	11.1	222.9	1,494.2	431.3	344.9	7.7	2.6
1985: IV	2,895.3	369.6	173.9	128.6	67.1	968.7	488.2	161.7	79.5	11.4	228.0	1,557.1	438.1	359.1	7.0	3.1
1986: IV	3,012.5	415.7	193.6	141.4	80.7	1,000.9	496.9	171.9	84.6	12.4	235.2	1,595.8	444.8	372.0	7.7	3.4
1987: IV	3,074.7	404.7	183.6	145.9	75.2	1,014.6	502.4	174.5	85.4	11.9	240.4	1,655.5	457.0	390.7	6.6	3.3
1988: IV	3,202.9	439.2	197.7	160.3	81.2	1,046.8	518.0	182.8	87.5	12.0	246.4	1,716.9	465.6	403.0	7.5	3.0
1989: IV	3,242.0	436.8	188.3	167.9	80.5	1,058.9	515.6	190.9	88.6	12.0	251.8	1,746.3	471.3	411.8	6.2	2.6
1990: I	3,259.5	453.5	202.6	171.8	79.1	1,058.3	518.3	188.6	87.4	9.8	254.3	1,747.7	473.3	418.3	7.2	2.8
II	3,260.1	439.2	192.8	169.7	76.8	1,057.1	521.2	185.6	86.4	10.9	253.0	1,763.7	474.1	422.1	6.8	2.7
III	3,273.9	437.7	191.3	168.9	77.5	1,059.1	521.6	186.2	86.7	10.9	253.7	1,777.1	475.1	426.7	7.1	2.5
IV	3,248.0	426.6	182.0	167.5	77.1	1,051.6	522.0	183.2	85.0	8.8	252.7	1,769.8	476.1	428.6	6.6	2.4
1991: I	3,223.5	412.0	169.6	166.9	75.5	1,043.0	516.4	180.8	83.9	9.4	252.5	1,768.5	476.5	431.9	6.1	2.2
II	3,239.3	411.3	167.2	169.3	74.8	1,046.3	516.3	183.2	86.0	9.8	251.0	1,781.8	477.9	435.6	6.1	2.3
III	3,251.2	419.4	173.3	170.4	75.7	1,044.8	515.0	183.7	86.0	10.0	250.0	1,787.0	478.8	440.5	6.3	2.3
IV	3,249.0	416.1	174.0	167.9	74.2	1,035.6	515.3	177.5	84.7	9.4	248.6	1,797.4	479.8	447.2	6.1	2.2
1992: I	3,289.3	432.3	181.5	174.4	76.5	1,049.6	518.9	184.1	85.7	10.2	250.7	1,807.3	481.2	449.6	6.1	2.2
II	3,286.6	429.3	179.9	174.0	75.3	1,045.4	513.6	184.2	85.7	12.4	249.6	1,812.0	482.8	453.1	6.3	2.2

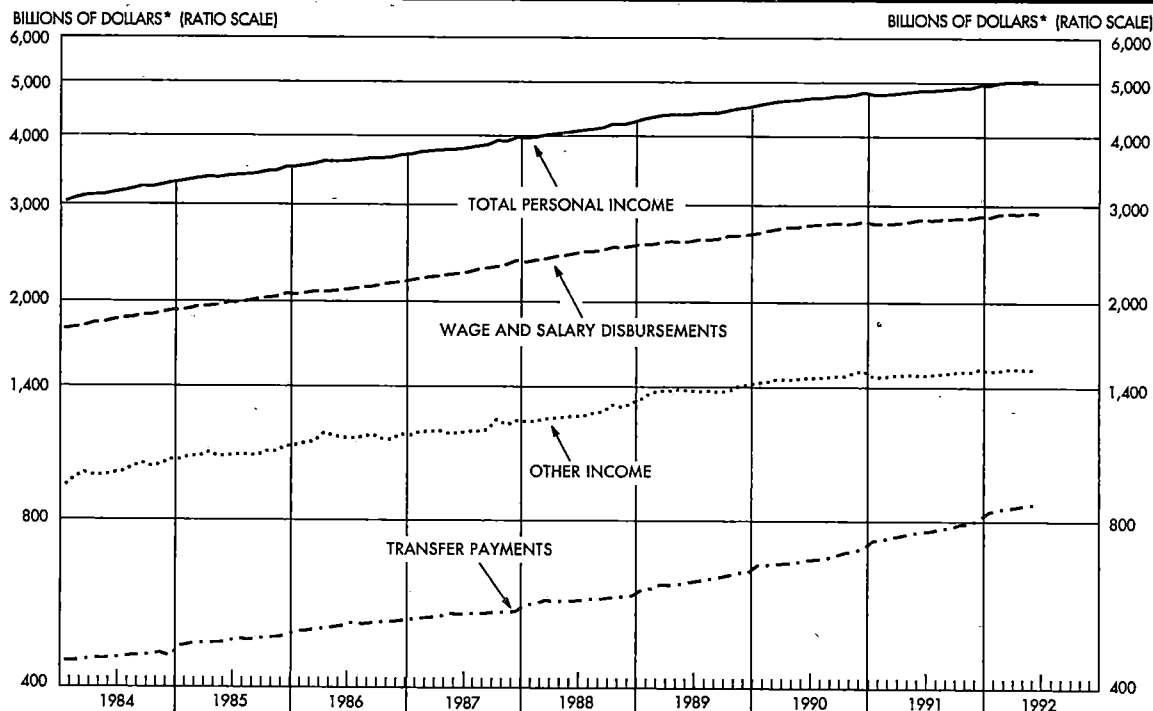
¹ Includes other items, not shown separately.

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

SOURCES OF PERSONAL INCOME

Personal income fell \$1.9 billion (annual rate) in June after rising \$13.9 billion in May. Wages and salaries fell \$4.9 billion in June, in contrast to a rise of \$14.4 billion in May. (Series revised.)



* SEASONALLY ADJUSTED ANNUAL RATES
SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars; monthly data at seasonally adjusted annual rates]

Period	Total personal income	Wage and salary disbursements ¹	Other labor income ^{1,2}	Proprietors' income ³		Rental income of persons ⁴	Personal dividend income	Personal interest income	Transfer payments ⁵	Less: Personal contributions for social insurance	Nonfarm personal income ⁶
				Farm	Nonfarm						
1982	2,690.9	1,593.3	165.4	13.5	157.3	21.9	67.1	376.8	408.1	112.3	2,649.8
1983	2,862.5	1,684.7	174.6	2.4	184.3	22.1	77.8	397.5	438.9	119.7	2,832.6
1984	3,154.6	1,849.8	184.7	21.3	214.7	23.3	78.8	461.9	452.9	132.8	3,106.1
1985	3,379.8	1,986.5	191.8	21.5	238.4	18.7	87.9	498.1	485.9	149.1	3,333.2
1986	3,590.4	2,105.4	200.7	22.3	261.5	8.7	104.7	531.7	517.8	162.1	3,545.6
1987	3,802.0	2,261.2	210.4	31.3	279.0	3.2	100.4	548.1	542.2	173.6	3,749.4
1988	4,075.9	2,443.0	230.5	30.9	293.4	4.3	108.4	583.2	576.7	194.5	4,023.9
1989 ^r	4,380.3	2,586.4	251.9	40.2	307.0	-13.5	126.5	668.2	625.0	211.4	4,318.0
1990 ^r	4,664.2	2,742.8	271.0	41.7	325.2	-12.3	140.3	694.5	685.8	224.8	4,599.6
1991 ^r	4,828.3	2,812.2	288.3	35.8	332.2	-10.4	137.0	700.6	771.1	238.4	4,770.4
1991: June ^r	4,828.1	2,825.3	287.5	36.0	330.1	-11.7	136.0	696.8	767.0	239.0	4,770.0
July ^r	4,827.6	2,814.4	289.1	31.2	337.2	-11.5	135.9	699.4	771.0	239.1	4,774.3
Aug ^r	4,847.5	2,825.6	290.6	28.7	337.3	-10.7	135.6	701.8	778.7	240.2	4,796.8
Sept ^r	4,863.4	2,833.1	292.1	28.6	338.2	-8.6	135.4	704.2	781.5	241.1	4,813.0
Oct ^r	4,889.3	2,835.4	293.6	40.9	339.7	-12.3	134.7	703.8	794.1	240.7	4,826.5
Nov ^r	4,887.4	2,838.5	295.0	29.1	339.5	-4.8	134.3	703.4	793.7	241.2	4,836.5
Dec ^r	4,944.9	2,861.2	296.4	43.8	340.7	-2.8	133.8	702.6	811.7	242.5	4,879.3
1992: Jan ^r	4,943.2	2,852.8	297.8	30.5	349.0	-4.2	133.6	693.1	835.5	244.9	4,890.7
Feb ^r	4,988.7	2,884.9	299.2	40.7	354.8	-6.2	133.8	684.4	844.3	247.3	4,925.8
Mar ^r	5,009.6	2,895.0	300.7	49.0	356.9	-3.2	134.2	676.9	848.2	248.2	4,938.2
Apr ^r	5,012.4	2,889.5	302.1	47.7	358.9	-1.5	135.4	675.0	853.7	248.4	4,942.2
May ^r	5,026.3	2,903.9	303.6	35.7	359.0	2.9	136.6	673.2	860.9	249.5	4,968.0
June ^p	5,024.4	2,899.0	305.0	29.9	360.2	7.7	137.9	671.4	863.8	250.4	4,971.9

¹ The total of wage and salary disbursements and other labor income differs from compensation of employees (see p. 4) in that it excludes employer contributions for social insurance and the excess of wage accruals over wage disbursements.

² Consists primarily of employer contributions to private pension and private welfare funds.

³ With inventory valuation and capital consumption adjustments.

⁴ With capital consumption adjustment.

⁵ Consists mainly of social insurance benefits, direct relief, and veterans payments.

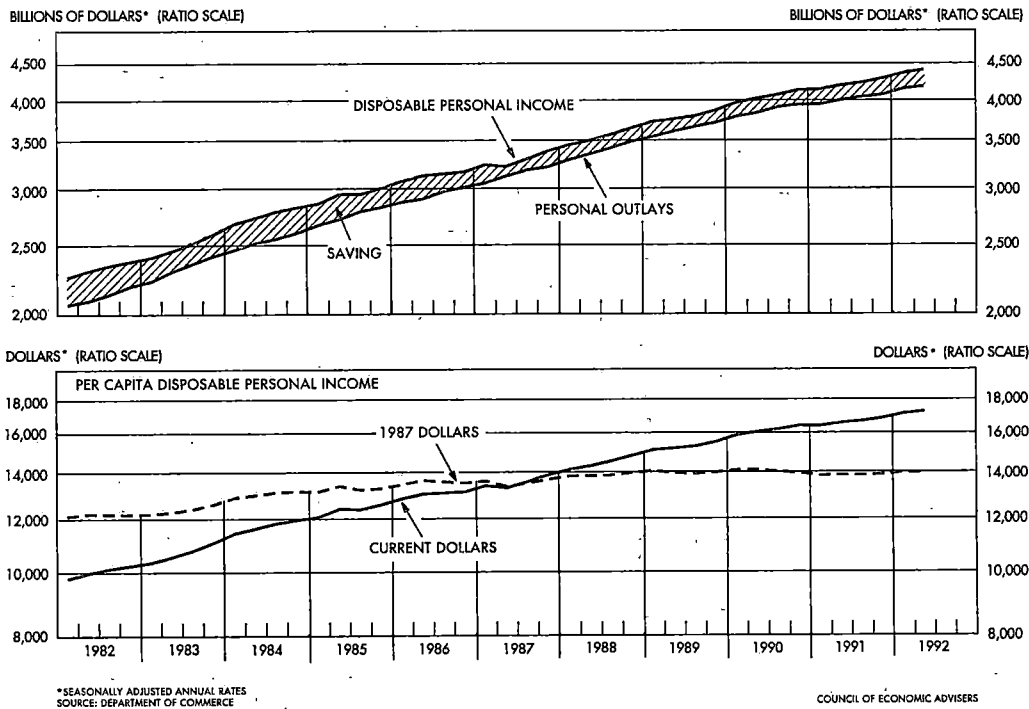
⁶ Personal income exclusive of farm proprietors' income, farm wages, farm other labor income, and agricultural net interest.

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

DISPOSITION OF PERSONAL INCOME

According to advance estimates, per capita disposable personal income in 1987 dollars fell in the second quarter of 1992. (Series revised.)



*SEASONALLY ADJUSTED ANNUAL RATES
SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

Period	Personal income	Less: Personal tax and nontax payments	Equals: Disposable personal income	Less: Personal outlays ¹	Equals: Personal saving	Dispos-able personal income in 1987 dollars (billions)	Per capita disposable personal income		Per capita personal consumption expenditures		Percent change in real per capita disposable personal income	Saving as percent of disposable personal income	Population, including Armed Forces overseas (thou-sands) ²
							Current dollars	1987 dollars	Current dollars	1987 dollars			
	Billions of dollars						Dollars				Percent		
1982.....	2,690.9	371.4	2,319.6	2,120.1	199.5	2,820.4	9,989	12,146	8,868	10,782	-0.1	8.6	232,201
1983.....	2,862.5	368.8	2,493.7	2,325.1	168.7	2,893.6	10,642	12,349	9,634	11,179	1.7	6.8	234,326
1984.....	3,154.6	395.1	2,759.5	2,537.5	222.0	3,080.1	11,673	13,029	10,408	11,617	5.5	8.0	236,393
1985.....	3,379.8	436.8	2,943.0	2,753.7	189.3	3,162.1	12,339	13,258	11,184	12,015	1.8	6.4	238,510
1986.....	3,590.4	459.0	3,131.5	2,944.0	187.5	3,261.9	13,010	13,552	11,843	12,336	2.2	6.0	240,691
1987.....	3,802.0	512.5	3,289.5	3,147.5	142.0	3,289.5	13,545	13,545	12,568	12,568	-1.1	4.3	242,860
1988.....	4,075.9	527.7	3,548.2	3,392.5	155.7	3,404.3	14,477	13,890	13,448	12,903	2.5	4.4	245,093
1989 ^r	4,380.3	593.3	3,787.0	3,634.9	152.1	3,464.9	15,307	14,005	14,241	13,029	.8	4.0	247,397
1990 ^r	4,664.2	621.3	4,042.9	3,867.3	175.6	3,516.5	16,174	14,068	14,996	13,044	.4	4.3	249,961
1991 ^r	4,828.3	618.7	4,209.6	4,009.9	199.6	3,509.0	16,658	13,886	15,384	12,824	-1.3	4.7	252,711
Seasonally adjusted annual rates													
1982: IV.....	2,746.8	372.1	2,374.7	2,190.9	183.8	2,832.6	10,189	12,154	9,134	10,895	-0.5	7.7	233,060
1983: IV.....	2,965.8	371.6	2,594.3	2,417.9	176.3	2,960.6	11,033	12,591	9,980	11,390	7.2	6.8	235,146
1984: IV.....	3,242.5	413.4	2,829.1	2,606.5	222.6	3,118.5	11,925	13,145	10,649	11,739	1.0	7.9	237,231
1985: IV.....	3,456.7	448.8	3,007.9	2,828.7	179.2	3,178.7	12,565	13,278	11,445	12,095	1.8	6.0	239,387
1986: IV.....	3,647.8	478.5	3,169.3	3,018.2	151.1	3,266.2	13,121	13,522	12,101	12,472	-1.7	4.8	241,550
1987: IV.....	3,918.5	528.6	3,389.9	3,220.1	169.8	3,335.8	13,907	13,685	12,819	12,615	5.2	5.0	243,745
1988: IV.....	4,195.2	542.0	3,653.2	3,496.7	156.4	3,443.1	14,850	13,996	13,814	13,020	3.2	4.3	246,004
1989: IV ^r	4,469.4	605.1	3,864.3	3,715.5	148.8	3,480.9	15,558	14,015	14,491	13,053	1.8	3.9	248,372
1990: I ^r	4,571.7	609.4	3,962.3	3,789.2	173.1	3,516.8	15,917	14,128	14,752	13,094	3.3	4.4	248,931
1990: II ^r	4,640.5	624.6	4,015.9	3,833.2	182.7	3,523.9	16,092	14,120	14,887	13,063	-2.2	4.6	249,558
1990: III ^r	4,692.6	627.3	4,065.3	3,908.0	157.3	3,513.7	16,242	14,038	15,133	13,080	-2.3	3.9	250,303
1990: IV ^r	4,751.9	623.8	4,128.1	3,938.8	189.3	3,511.6	16,443	13,988	15,209	12,938	-1.4	4.6	251,050
1991: I ^r	4,752.8	616.8	4,136.0	3,943.2	192.8	3,488.7	16,433	13,861	15,184	12,808	-3.6	4.7	251,687
1991: II ^r	4,806.9	617.2	4,189.7	3,994.4	195.3	3,505.2	16,604	13,891	15,345	12,838	.9	4.7	252,329
1991: III ^r	4,846.2	618.6	4,227.6	4,036.6	191.0	3,511.5	16,706	13,876	15,468	12,848	-4.4	4.5	253,053
1991: IV ^r	4,907.2	622.3	4,284.9	4,065.5	219.4	3,530.8	16,885	13,913	15,537	12,803	1.1	5.1	253,776
1992: I ^r	4,980.5	619.6	4,360.9	4,146.3	214.6	3,565.7	17,143	14,017	15,814	12,930	3.0	4.9	254,388
1992: II ^p	5,021.0	614.9	4,406.1	4,176.2	229.9	3,572.3	17,275	14,006	15,894	12,886	-3.3	5.2	255,051

¹ Includes personal consumption expenditures, interest paid by persons, and personal transfer payments to rest of the world (net).

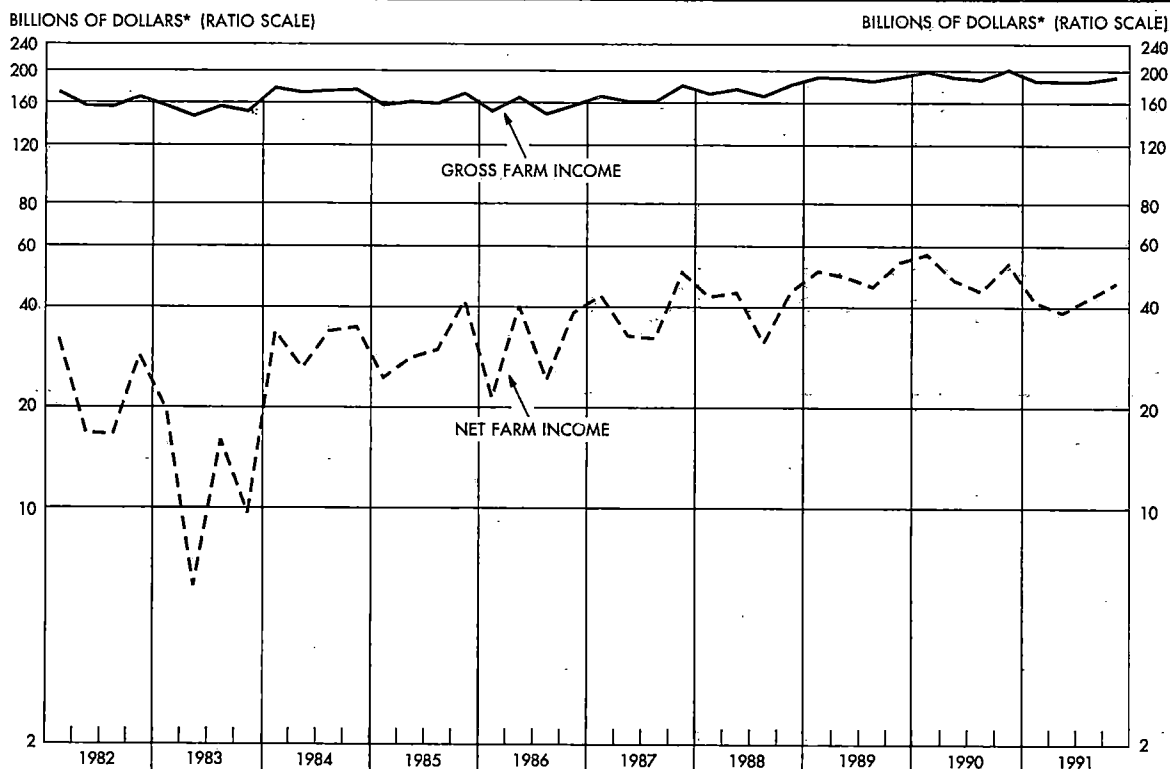
² Annual data are averages of quarterly data, which are averages for the period.

NOTE.—See Note, p. 1.

Source: Department of Commerce (Bureau of Economic Analysis and Bureau of the Census).

FARM INCOME

In the fourth quarter of 1991, according to current estimates, gross farm income rose \$5.2 billion (annual rate) and net farm income rose \$4.6 billion.



*SEASONALLY ADJUSTED ANNUAL RATES
SOURCE: DEPARTMENT OF AGRICULTURE

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Income of farm operators from farming							
	Gross farm income					Production expenses	Net farm income	
	Total ¹	Cash marketing receipts			Value of inventory changes ²		Current dollars	1987 dollars ³
		Total	Livestock and products	Crops				
1981	166.3	141.6	69.2	72.5	6.5	139.4	26.9	34.1
1982	164.1	142.6	70.3	72.3	— 1.4	140.3	23.8	28.5
1983	153.9	136.8	69.6	67.2	— 10.9	139.6	14.2	16.3
1984	168.0	142.8	72.9	69.9	6.0	141.9	26.1	28.7
1985	161.2	144.1	69.8	74.3	— 2.3	132.4	28.8	30.5
1986	156.1	135.3	71.6	63.7	— 2.2	125.1	31.0	32.0
1987	168.4	141.8	76.0	65.8	— 2.3	128.7	39.7	39.7
1988	174.5	151.1	79.4	71.6	— 3.5	133.9	40.6	39.1
1989	190.3	160.9	84.1	76.8	4.3	140.2	50.1	46.2
1990	195.1	170.0	89.6	80.4	2.9	144.3	50.8	45.0
1991	187.7	167.7	85.7	82.0	— 1.4	145.8	41.9	35.9
1990: I	199.3	166.0	89.4	76.6	4.7	142.0	57.2	51.6
II	191.5	166.8	87.9	78.9	3.6	143.5	48.0	42.6
III	188.3	173.7	90.7	83.0	2.3	143.8	44.4	39.1
IV	201.6	173.4	90.3	83.1	1.2	147.9	53.6	46.9
1991: I	187.0	165.3	86.0	79.2	— 7	146.1	41.0	35.5
II	186.1	164.1	83.6	80.4	— 1.4	148.0	38.0	32.7
III	186.3	174.0	85.9	88.0	— 1.8	144.3	42.0	36.0
IV	191.5	167.5	87.1	80.3	— 2.0	144.8	46.6	39.7

¹ Cash marketing receipts and inventory changes plus Government payments, other farm cash income, and nonmoney income furnished by farms.

² Physical changes in end-of-year inventory of crop and livestock commodities valued at average prices during the year.

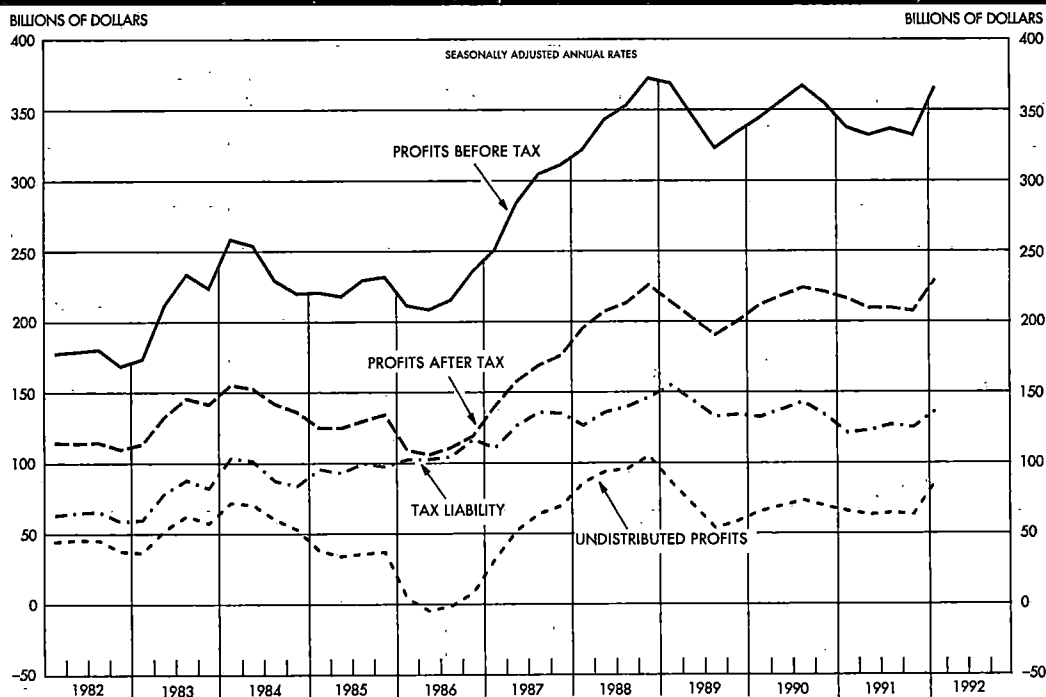
³ Income in current dollars divided by the GDP implicit price deflator. Data do not reflect GDP revisions of July 30, 1992.

NOTE.—Data include net Commodity Credit Corporation loans and operator households.

Sources: Department of Agriculture and Department of Commerce.

CORPORATE PROFITS

In the first quarter of 1992, according to revised estimates, corporate profits before tax rose \$33.8 billion (annual rate) and profits after tax rose \$22.3 billion. (Series revised.)



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Profits (before tax) with inventory valuation adjustment ¹						Profits before tax	Tax liability	Profits after tax			Inventory valuation adjustment
	Total ²	Domestic industries							Total	Dividends	Undistributed profits	
		Total	Financial	Nonfinancial								
				Total ³	Manufacturing	Wholesale and retail trade						
1982	166.4	138.6	15.6	123.0	63.1	31.9	176.3	63.1	113.2	70.0	43.2	-9.9
1983	202.2	171.9	24.5	147.4	71.4	38.7	210.7	77.2	133.5	81.2	52.3	-8.5
1984	236.4	205.2	20.3	185.0	86.7	49.7	240.5	94.0	146.4	82.7	63.8	-4.1
1985	225.3	194.5	28.7	165.8	80.1	43.1	225.0	96.5	128.5	92.4	36.1	.2
1986	227.6	194.6	35.8	158.9	59.0	46.3	217.8	106.5	111.3	109.8	1.6	-9.7
1987	273.4	233.9	36.4	197.5	87.0	39.9	287.9	127.1	160.8	106.2	54.6	-14.5
1988	320.3	271.2	41.8	229.4	117.5	37.1	347.5	137.0	210.5	115.3	95.2	-27.3
1989 ^r	325.4	266.0	50.6	215.3	108.0	39.7	342.9	141.3	201.6	134.6	67.1	-17.5
1990 ^r	341.2	275.5	56.7	218.8	106.9	35.8	355.4	136.7	218.7	149.3	69.4	-14.2
1991 ^r	337.8	271.3	60.9	210.4	89.3	44.0	334.7	124.0	210.7	146.5	64.2	3.1
1982: IV	160.0	130.8	23.0	107.8	50.1	33.8	168.6	58.7	109.9	72.5	37.5	-8.6
1983: IV	216.2	182.6	22.1	160.5	90.5	40.7	223.8	82.2	141.6	84.2	57.4	-7.6
1984: IV	223.6	192.9	20.3	172.6	79.2	50.8	220.1	83.8	136.3	83.4	52.9	3.5
1985: IV	228.0	193.5	29.0	164.5	83.3	39.0	231.8	97.6	134.2	97.4	36.9	-3.8
1986: IV	225.0	192.5	34.7	157.8	63.9	43.1	235.7	116.6	119.2	111.0	8.2	-10.7
1987: IV	293.4	246.3	39.4	207.0	98.7	39.3	311.2	135.2	176.0	106.3	69.7	-17.8
1988: IV	340.5	285.9	46.1	239.7	129.3	39.3	372.2	146.2	226.0	121.0	105.0	-31.7
1989: IV ^r	320.6	254.8	52.5	202.3	94.5	39.2	334.1	134.2	200.0	141.3	58.7	-13.5
1990: I ^r	337.4	275.0	57.0	218.0	104.4	36.7	344.0	132.4	211.6	146.1	65.5	-6.6
1990: II ^r	359.6	297.0	57.8	239.2	116.6	41.7	355.8	137.6	218.2	148.7	69.5	3.8
1990: III ^r	334.4	269.7	56.9	212.8	110.6	30.0	367.0	143.0	224.0	150.6	73.4	-32.6
1990: IV ^r	333.5	260.2	55.1	205.1	96.3	35.0	354.7	133.7	221.0	151.9	69.1	-21.2
1991: I ^r	344.2	269.4	59.7	209.7	87.6	44.1	337.6	121.3	216.3	150.6	65.7	6.7
1991: II ^r	342.2	275.9	60.7	215.1	90.3	45.5	332.3	122.9	209.4	146.2	63.2	9.9
1991: III ^r	331.9	270.0	63.6	206.4	91.8	41.7	336.7	127.0	209.6	145.1	64.5	-4.8
1991: IV ^r	333.1	270.2	59.7	210.5	87.5	44.5	332.3	125.0	207.4	143.9	63.4	.7
1992: I ^r	360.7	292.0	70.1	221.9	97.5	39.9	366.1	136.4	229.7	143.6	86.2	-5.4
1992: II ^p										146.7		-15.2

¹ See p. 4 for profits with inventory valuation and capital consumption adjustments.

² Includes rest of the world, not shown separately.

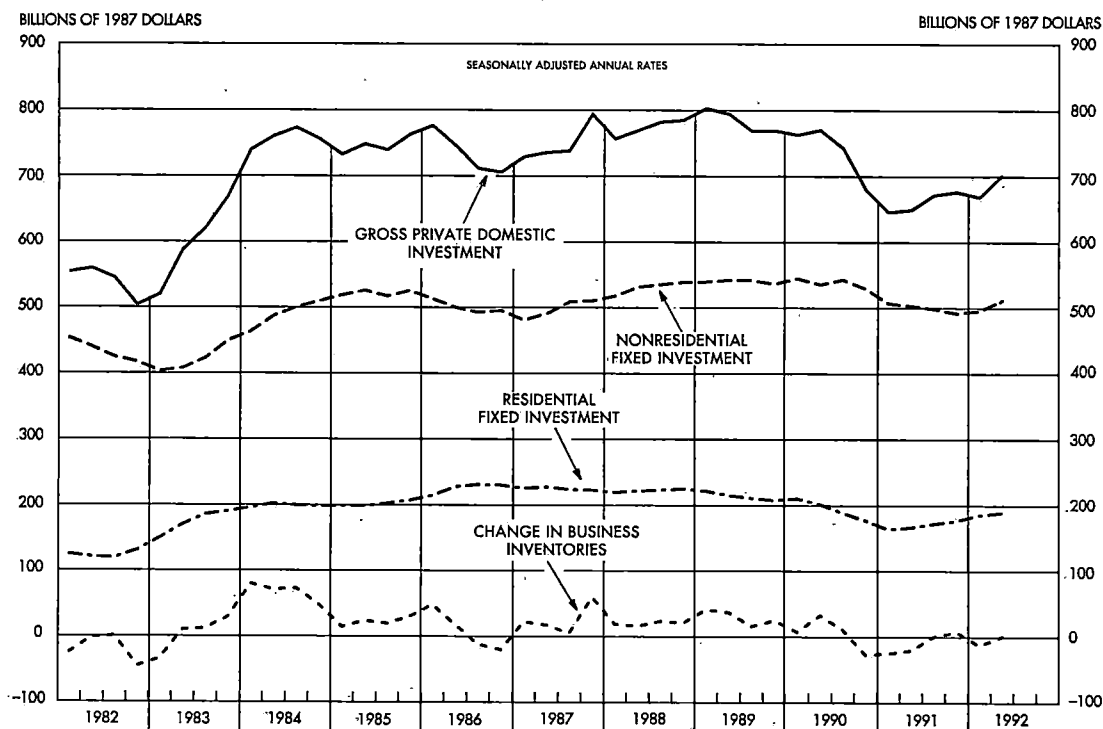
³ Includes industries not shown separately.

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

GROSS PRIVATE DOMESTIC INVESTMENT IN 1987 DOLLARS

According to advance estimates for the second quarter of 1992, nonresidential fixed investment in 1987 dollars rose \$15.9 billion (annual rate) and residential investment rose \$3.9 billion. There was a \$1.0 billion increase in inventories, following a decrease of \$12.6 billion in the first quarter. (Series revised.)



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of 1987 dollars; quarterly data at seasonally-adjusted annual rates]

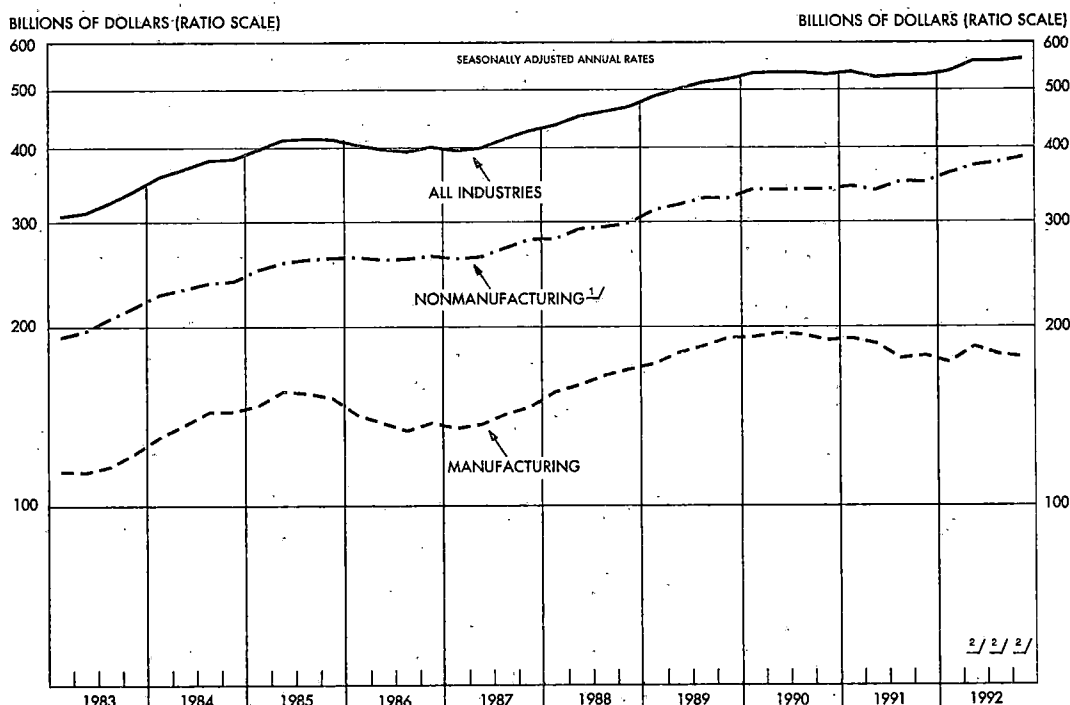
Period	Gross private domestic investment	Fixed investment					Change in business inventories	
		Total	Nonresidential			Residential	Total	Nonfarm
			Total	Structures	Producers' durable equipment			
1982.....	540.5	558.0	433.9	181.3	252.6	124.1	-17.5	-20.7
1983.....	599.5	595.1	420.8	160.3	260.5	174.2	4.4	12.8
1984.....	757.5	689.6	490.2	182.8	307.4	199.3	67.9	66.2
1985.....	745.9	723.8	521.8	197.4	324.4	202.0	22.1	19.8
1986.....	735.1	726.5	500.3	176.6	323.7	226.2	8.5	10.6
1987.....	749.3	723.0	497.8	171.3	326.5	225.2	26.3	32.7
1988.....	773.4	753.4	530.8	174.0	356.8	222.7	19.9	26.9
1989.....	784.0	754.2	540.0	177.6	362.5	214.2	29.8	29.9
1990.....	739.1	732.9	538.1	179.1	359.0	194.8	6.2	3.7
1991.....	661.1	670.4	500.2	157.6	342.6	170.2	-9.3	-9.6
1982: IV.....	503.5	548.4	417.2	173.2	244.0	131.2	-44.9	-46.2
1983: IV.....	669.5	640.2	449.6	162.6	287.0	190.6	29.3	32.3
1984: IV.....	756.4	708.4	509.6	189.5	320.1	198.8	47.9	50.8
1985: IV.....	763.1	732.9	525.5	198.3	327.2	207.4	30.2	28.0
1986: IV.....	705.9	725.9	495.5	170.4	325.0	230.5	-20.1	-18.6
1987: IV.....	793.8	733.9	510.6	177.9	332.7	223.3	59.9	62.1
1988: IV.....	785.0	764.1	538.8	175.7	363.1	225.3	20.9	30.5
1989: IV.....	769.5	744.6	536.7	179.8	356.9	208.0	24.9	31.2
1990: I.....	763.0	755.4	544.8	182.0	362.8	210.7	7.5	5.9
1990: II.....	770.2	737.4	535.6	180.1	355.5	201.8	32.8	27.9
1990: III.....	743.1	732.0	542.9	181.2	361.7	189.1	11.2	6.6
1990: IV.....	680.0	706.8	529.3	173.2	356.1	177.5	-26.8	-25.6
1991: I.....	646.0	671.1	507.0	166.8	340.2	164.1	-25.1	-24.7
1991: II.....	649.5	669.8	503.0	162.2	340.8	166.9	-20.4	-24.5
1991: III.....	672.0	671.4	498.7	153.0	345.8	172.6	.6	-1.0
1991: IV.....	676.9	669.3	492.1	148.4	343.7	177.3	7.5	11.8
1992: I.....	668.9	681.4	495.8	149.4	346.4	185.6	-12.6	-10.7
1992: II.....	702.2	701.2	511.7	148.6	363.1	189.5	1.0	.2

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT

According to the Commerce Department April-May 1992 survey, business spending for new plant and equipment is expected to rise 4.7 percent in 1992, following a decline of 0.6 percent in 1991.



1/ SURVEYED QUARTERLY
2/ SEE FOOTNOTE 4 BELOW
SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Industries surveyed quarterly									Addenda				
	All industries	Manufacturing			Nonmanufacturing					Total non-farm business ²	Manufacturing	Nonmanufacturing		
		Total	Durable goods	Non-durable goods	Total ¹	Mining	Transportation	Public utilities	Commercial and other			Total	Surveyed quarterly	Surveyed annually ³
1981	324.73	128.68	58.93	69.75	196.06	15.81	12.67	47.17	120.41	358.77	128.68	230.09	196.06	34.04
1982	326.19	123.97	54.58	69.39	202.22	14.11	11.75	53.58	122.79	363.08	123.97	239.11	202.22	36.89
1983	321.16	117.35	51.61	65.74	203.82	10.84	10.81	52.95	129.41	359.73	117.35	242.38	203.82	38.56
1984	373.83	139.61	64.57	75.04	234.22	11.86	13.44	57.53	151.39	418.38	139.61	278.77	234.22	44.55
1985	410.12	152.88	70.87	82.01	257.24	12.00	14.57	59.58	171.09	454.93	152.88	302.05	257.24	44.81
1986	399.36	137.95	65.68	72.28	261.40	8.15	15.05	56.61	181.59	447.11	137.95	309.16	261.40	47.75
1987	410.52	141.06	68.03	73.03	269.46	8.28	15.07	56.26	189.84	461.51	141.06	320.45	269.46	50.99
1988	455.49	163.45	77.04	86.41	292.04	9.29	16.63	60.37	205.76	508.22	163.45	344.77	292.04	52.73
1989	507.40	183.80	82.56	101.24	323.60	9.21	18.84	66.28	229.28	563.93	183.80	380.13	323.60	56.53
1990	532.61	192.61	82.58	110.04	339.99	9.88	21.47	67.21	241.43	591.96	192.61	399.34	339.99	59.35
1991	529.20	183.61	77.95	105.66	345.59	10.02	22.69	66.51	246.37	588.74	183.61	405.13	345.59	59.54
1992 ⁴	553.86	179.21	75.18	104.03	374.65	8.98	24.55	72.81	268.31		179.21		374.65	
1990:														
I	532.50	192.16	86.03	106.14	340.33	9.62	21.84	65.41	243.46		192.16		340.33	
II	534.55	195.02	84.15	110.87	339.53	9.77	21.94	64.64	243.18		195.02		339.53	
III	534.11	194.05	82.48	111.57	340.06	9.97	21.08	67.68	241.32		194.05		340.06	
IV	530.13	189.72	79.03	110.69	340.41	10.12	21.18	70.24	238.87		189.72		340.41	
1991:														
I	535.50	191.13	81.24	109.90	344.37	9.89	23.25	67.04	244.19		191.13		344.37	
II	524.57	187.35	79.69	107.66	337.22	10.09	23.05	64.58	239.50		187.35		337.22	
III	527.86	177.05	74.51	102.54	350.81	10.09	22.83	66.47	251.42		177.05		350.81	
IV	528.88	178.90	76.36	102.54	349.98	10.00	21.65	67.96	250.37		178.90		349.98	
1992:														
I	536.49	174.21	74.49	99.72	362.28	8.83	21.62	68.81	263.02		174.21		362.28	
II	558.50	185.23	76.64	108.59	373.27	9.53	25.43	72.99	265.31		185.23		373.27	
III	557.55	179.63	74.39	105.24	377.92	9.08	25.69	73.95	269.21		179.63		377.92	
IV	562.89	177.75	75.20	102.55	385.14	8.49	25.45	75.51	275.69		177.75		385.14	

¹ Excludes forestry, fisheries, and agricultural services; medical services; professional services; social services and membership organizations; and real estate, which, effective with the April-May 1984 survey, are no longer surveyed quarterly. See last column ("nonmanufacturing surveyed annually") for data for these industries.

² "All industries" plus the part of nonmanufacturing that is surveyed annually.

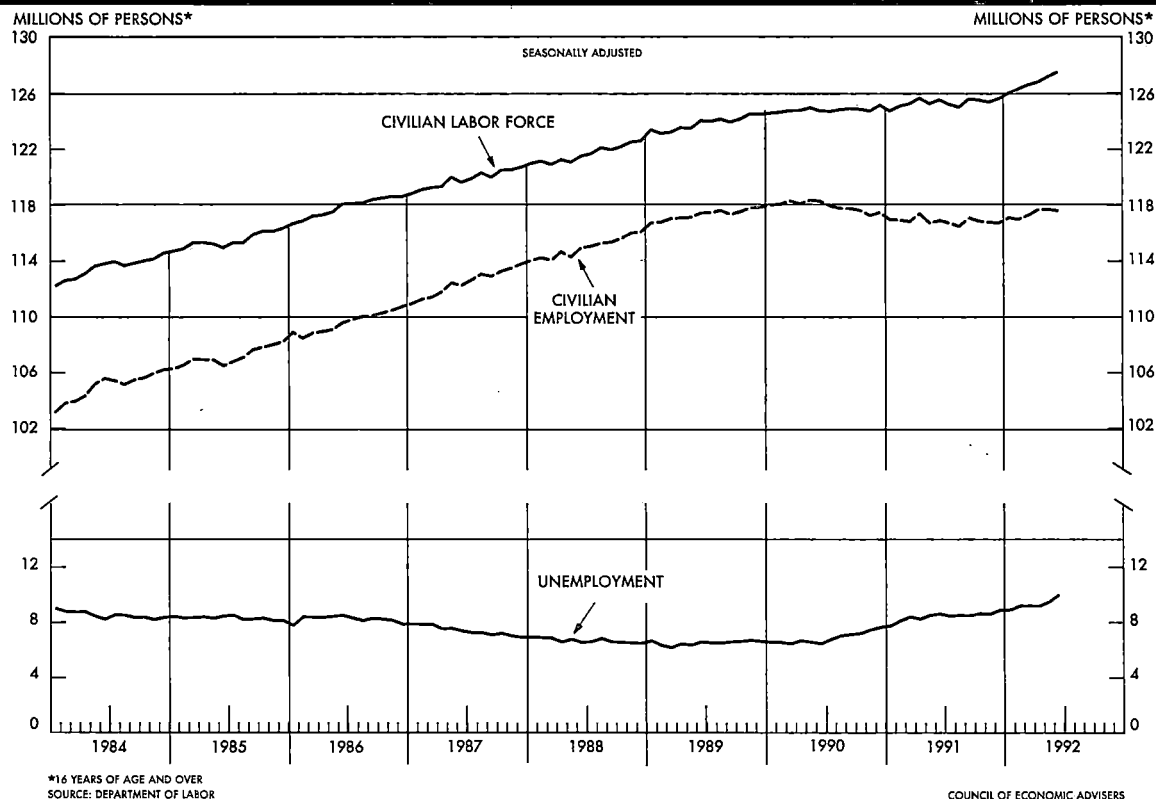
³ Consists of forestry, fisheries, and agricultural services; medical services; professional services; social services and membership organizations; and real estate.

⁴ Planned capital expenditures as reported by business in April-May 1992, corrected for biases.

Source: Department of Commerce, Bureau of the Census.

EMPLOYMENT, UNEMPLOYMENT, AND WAGES

In June, civilian employment fell 82,000 and unemployment rose 471,000.



[Thousands of persons 16 years of age and over, except as noted; monthly data seasonally adjusted except as noted by NSA]

Period	Noninstitutional population including resident Armed Forces NSA	Resident Armed Forces NSA	Labor force including resident Armed Forces	Employment including resident Armed Forces	Civilian labor force	Civilian employment				Unemployment		Civilian	
						Total	Agricultural	Nonagricultural		Total	15 weeks and over	Labor force participation rate (percent) ²	Employment/population ratio (percent) ²
								Total	Part time for economic reasons ¹				
1982	173,939	1,668	111,872	101,194	110,204	99,526	3,401	96,125	5,852	10,678	3,485	64.0	57.8
1983	175,891	1,676	113,226	102,510	111,550	100,834	3,383	97,450	5,997	10,717	4,210	64.0	57.9
1984	178,080	1,697	115,241	106,702	113,544	105,005	3,321	101,685	5,512	8,539	2,737	64.4	59.5
1985	179,912	1,706	117,167	108,856	115,461	107,150	3,179	103,971	5,334	8,312	2,305	64.8	60.1
1986*	182,293	1,706	119,540	111,303	117,834	109,597	3,163	106,434	5,345	8,237	2,232	65.3	60.7
1987	184,490	1,737	121,602	114,177	119,865	112,440	3,208	109,232	5,122	7,425	1,983	65.6	61.5
1988	186,322	1,709	123,378	116,677	121,669	114,968	3,169	111,800	4,965	6,701	1,610	65.9	62.3
1989	188,081	1,688	125,557	119,030	123,869	117,342	3,199	114,142	4,657	6,528	1,375	66.5	63.0
1990	189,686	1,637	126,424	119,550	124,787	117,914	3,186	114,728	4,860	6,874	1,504	66.4	62.7
1991	191,329	1,564	126,867	118,440	125,303	116,877	3,233	113,644	5,767	8,426	2,323	66.0	61.6
1991:													
June	191,173	1,505	127,029	118,414	125,524	116,909	3,286	113,623	5,469	8,615	2,488	66.2	61.6
July	191,443	1,604	126,808	118,333	125,204	116,729	3,244	113,485	5,660	8,475	2,355	66.0	61.5
Aug	191,589	1,616	126,620	118,100	125,004	116,484	3,254	113,230	5,710	8,520	2,417	65.8	61.3
Sept	191,746	1,624	127,214	118,713	125,590	117,089	3,283	113,806	6,040	8,501	2,422	66.1	61.6
Oct	191,903	1,614	127,122	118,481	125,508	116,867	3,204	113,663	6,055	8,641	2,570	66.0	61.4
Nov	192,057	1,605	126,979	118,377	125,374	116,772	3,272	113,500	6,123	8,602	2,623	65.8	61.3
Dec	192,209	1,604	127,223	118,332	125,619	116,728	3,183	113,545	6,084	8,891	2,843	65.9	61.2
1992:													
Jan	192,358	1,599	127,645	118,716	126,046	117,117	3,166	113,951	6,429	8,929	3,059	66.1	61.4
Feb	192,469	1,585	127,872	118,628	126,287	117,043	3,232	113,811	6,213	9,244	3,204	66.2	61.3
Mar	192,607	1,585	128,175	118,933	126,590	117,348	3,194	114,155	6,180	9,242	3,185	66.3	61.4
Apr	192,745	1,577	128,407	119,252	126,830	117,675	3,209	114,465	5,910	9,155	3,018	66.3	61.6
May	192,881	1,574	128,734	119,230	127,160	117,656	3,178	114,478	6,210	9,504	3,361	66.5	61.5
June	193,025	1,570	129,119	119,144	127,549	117,574	3,252	114,322	5,824	9,975	3,675	66.6	61.4

¹ Persons at work. Economic reasons include slack work, material shortages, inability to find full-time work, etc.

² Civilian labor force (or employment) as percent of civilian noninstitutional population.

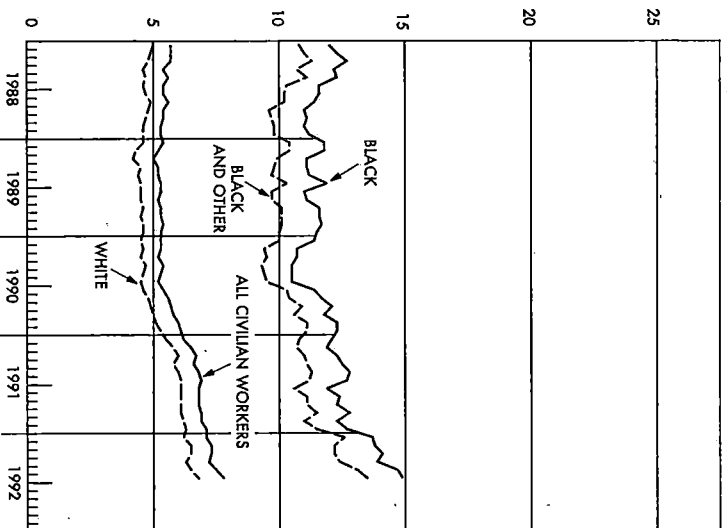
*Data beginning January 1986 not strictly comparable with earlier data because of change in estimation procedures.

Source: Department of Labor, Bureau of Labor Statistics.

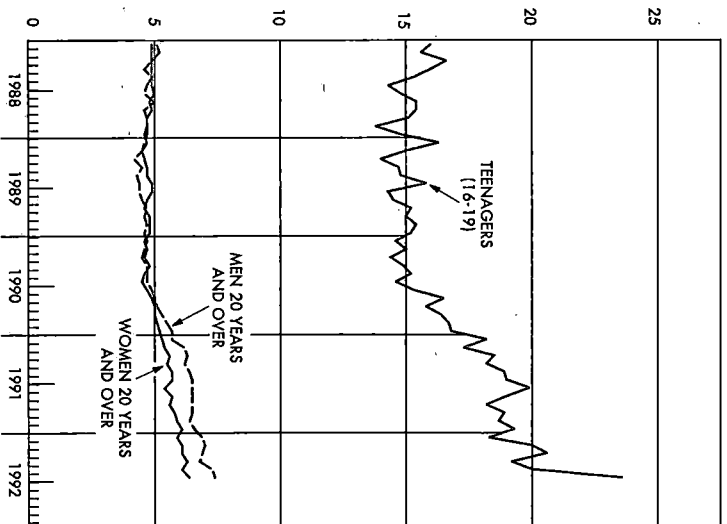
SELECTED UNEMPLOYMENT RATES

In June, the civilian unemployment rate rose to 7.8 percent and the overall unemployment rate rose to 7.7 percent.

PERCENT* (SEASONALLY ADJUSTED)



PERCENT* (SEASONALLY ADJUSTED)



* UNEMPLOYMENT AS PERCENT OF CIVILIAN LABOR FORCE IN GROUP SPECIFIED
SOURCE: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

[Monthly data seasonally adjusted]

Period	Unem- ploy- ment rate, all work- ers 1	Unemployment rate (percent of civilian labor force in group)											Labor force lost time (per- cent) 2	
		All civilian work- ers	By sex and age			By race			By selected groups					
			Men 20 years and over	Women 20 years and over	Both sexes 16-19 years	White	Black and other	Black	Exper- enced wage and salary workers	Married men, spouse present	Women who main- tain families	Full- time workers		Part- time workers
1982	9.5	9.7	8.8	8.3	23.2	8.6	17.3	18.9	9.3	6.5	11.7	9.6	10.5	11.0
1983	9.5	9.6	8.9	8.1	22.4	8.4	17.8	19.5	9.2	6.5	12.2	9.5	10.4	10.9
1984	7.4	7.5	6.6	6.8	18.9	6.5	14.4	15.9	7.1	4.6	10.3	7.2	9.3	8.6
1985	7.1	7.2	6.2	6.6	18.6	6.2	13.7	15.1	6.8	4.3	10.4	6.8	9.3	8.1
1986	6.9	7.0	6.1	6.2	18.3	6.0	13.1	14.5	6.6	4.4	9.8	6.6	9.1	7.9
1987	6.1	6.2	5.4	5.4	16.9	5.3	11.6	13.0	5.8	3.9	9.2	5.8	8.4	7.1
1988	5.4	5.5	4.8	4.9	15.3	4.7	10.4	11.7	5.2	3.3	8.1	5.2	7.6	6.3
1989	5.2	5.3	4.5	4.7	15.0	4.5	10.0	11.4	5.0	3.0	8.1	4.9	7.3	5.9
1990	5.4	5.5	4.9	4.8	15.5	4.7	10.1	11.3	5.3	3.4	8.2	5.2	7.4	6.2
1991	6.6	6.7	6.3	5.7	18.6	6.0	11.1	12.4	6.5	4.4	9.1	6.5	8.3	7.6
1991: June ...	6.8	6.9	6.5	5.7	19.0	6.1	11.2	12.7	6.6	4.6	9.1	6.6	8.5	7.6
July	6.7	6.8	6.5	5.4	19.9	6.1	10.6	11.9	6.4	4.4	8.5	6.6	8.2	7.6
Aug	6.7	6.8	6.5	5.7	19.0	6.1	11.1	12.4	6.5	4.4	9.4	6.6	8.3	7.7
Sept	6.7	6.8	6.5	5.6	18.2	6.1	11.1	12.3	6.5	4.5	9.0	6.5	8.4	7.7
Oct	6.8	6.9	6.5	5.8	18.9	6.1	11.5	12.8	6.6	4.2	9.4	6.6	8.4	7.7
Nov	6.8	6.9	6.4	5.9	18.7	6.2	11.0	12.3	6.7	4.5	9.1	6.5	8.6	7.9
Dec	7.0	7.1	6.6	6.1	19.3	6.3	11.5	12.7	6.8	4.7	9.1	6.8	8.6	8.1
1992: Jan	7.0	7.1	6.9	5.9	18.3	6.2	12.6	13.7	6.9	4.8	9.0	6.8	9.1	8.1
Feb	7.2	7.3	7.0	6.1	20.0	6.5	12.2	13.8	7.1	5.0	9.5	7.1	8.8	8.3
Mar	7.2	7.3	6.9	6.1	20.6	6.5	12.2	14.1	7.2	4.8	10.0	7.0	9.0	8.3
Apr	7.1	7.2	6.8	6.3	19.2	6.3	12.4	13.9	6.9	4.7	10.2	7.0	8.8	8.3
May	7.4	7.5	7.3	6.1	20.0	6.5	13.1	14.7	7.2	5.1	10.0	7.1	9.5	8.3
June ...	7.7	7.8	7.4	6.4	23.6	6.8	13.5	14.9	7.3	5.3	10.1	7.5	9.3	8.4

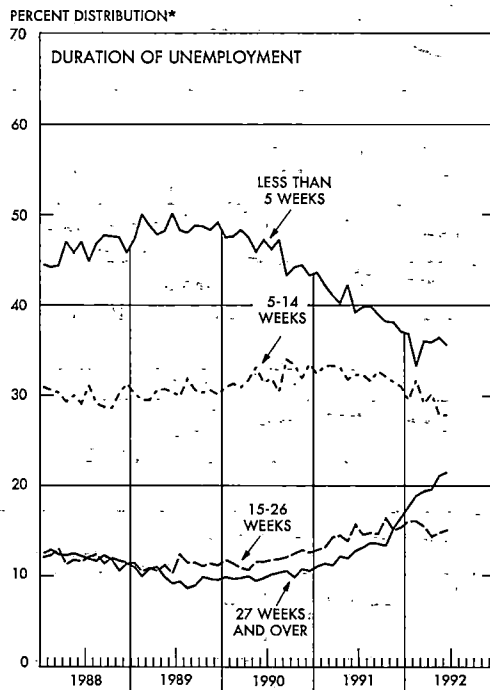
1 Unemployed as percent of total labor force including resident Armed Forces.

2 Aggregate hours lost by the unemployed and persons on part time for economic reasons as per-
cent of potentially available labor force hours.

Source: Department of Labor, Bureau of Labor Statistics.

SELECTED MEASURES OF UNEMPLOYMENT AND UNEMPLOYMENT INSURANCE PROGRAMS

In June, the percentage of the unemployed who had been out of work for less than 5 weeks fell, the percentage for 5-14 weeks was unchanged, and the percentages for 15-26 weeks and for 27 weeks and over rose. The mean duration of unemployment rose to 18.6 weeks and the median duration fell to 8.7 weeks.



* SEASONALLY ADJUSTED
SOURCE: DEPARTMENT OF LABOR



COUNCIL OF ECONOMIC ADVISERS

[Monthly data seasonally adjusted, except as noted]

Period	Unemployment (thousands)	Duration of unemployment						Reason for unemployment: percent distribution				State programs		Insured unem- ployment, all regular programs (unadjusted) ¹
		Percent distribution				Number of weeks		Job losers	Job leav- ers	Reen- trants	New entrants	Insured unem- ployment	Initial claims	
		Less than 5 weeks	5-14 weeks	15-26 weeks	27 weeks and over	Aver- age (mean)	Medi- an							
Weekly average, thousands														
1982	10,678	36.4	31.0	16.0	16.6	15.6	8.7	58.7	7.9	22.3	11.1	4,061	583	4,594
1983	10,717	33.3	27.4	15.4	23.9	20.0	10.1	58.4	7.7	22.5	11.3	3,396	438	3,775
1984	8,539	39.2	28.7	12.9	19.1	18.2	7.9	51.8	9.6	25.6	13.0	2,476	377	2,561
1985	8,312	42.1	30.2	12.3	15.4	15.6	6.8	49.8	10.6	27.1	12.5	2,611	396	2,693
1986	8,237	41.9	31.0	12.7	14.4	15.0	6.9	48.9	12.3	26.2	12.5	2,650	378	2,746
1987	7,425	43.7	29.6	12.7	14.0	14.5	6.5	48.0	13.0	26.6	12.4	2,332	328	2,401
1988	6,701	46.0	30.0	12.0	12.1	13.5	5.9	46.1	14.7	27.0	12.2	2,081	310	2,135
1989	6,528	48.6	30.3	11.2	9.9	11.9	4.8	45.7	15.7	28.2	10.4	2,158	330	2,205
1990	6,874	46.1	32.0	11.8	10.1	12.1	5.4	48.3	14.8	27.4	9.5	2,522	388	2,575
1991	8,426	40.1	32.3	14.5	13.0	13.8	6.9	54.7	11.6	24.8	8.9	3,342	447	3,407
1991: June	8,615	39.2	32.3	15.7	12.8	14.0	6.9	54.7	12.3	24.4	8.5	3,406	421	3,177
July	8,475	39.8	32.3	14.6	13.2	13.9	6.8	54.7	11.6	24.3	9.4	3,336	418	3,270
Aug	8,520	39.9	31.6	14.8	13.7	14.1	7.2	55.4	10.5	24.9	9.1	3,283	415	2,999
Sept	8,501	39.0	32.7	14.7	13.6	14.2	7.4	56.1	11.0	23.8	9.1	3,267	415	2,795
Oct	8,641	38.2	32.1	16.4	13.4	14.6	7.4	55.1	11.4	24.2	9.4	3,273	418	2,795
Nov	8,602	38.1	31.5	15.1	15.3	14.9	7.7	54.8	11.5	24.6	9.0	3,313	448	2,846
Dec	8,891	37.1	31.0	15.4	16.5	15.3	7.8	56.2	10.3	24.4	9.1	3,317	464	3,565
1992: Jan	8,929	36.8	29.5	16.1	17.7	16.4	8.1	53.7	11.0	26.4	8.9	3,349	446	4,197
Feb	9,244	33.3	31.7	16.1	18.9	17.0	8.2	57.8	9.8	23.5	8.9	3,324	452	4,199
Mar	9,242	36.0	29.1	15.5	19.4	17.1	8.0	57.3	9.9	24.0	8.8	3,340	440	4,102
Apr	9,155	35.9	30.2	14.4	19.6	17.0	8.8	56.5	11.3	23.1	9.2	3,348	412	3,627
May	9,504	36.4	27.8	14.8	21.1	18.3	9.0	57.7	10.5	22.7	9.0	3,328	407	3,193
June	9,975	35.6	27.8	15.1	21.5	18.6	8.7	56.3	10.4	22.8	10.4	3,249	415	3,141

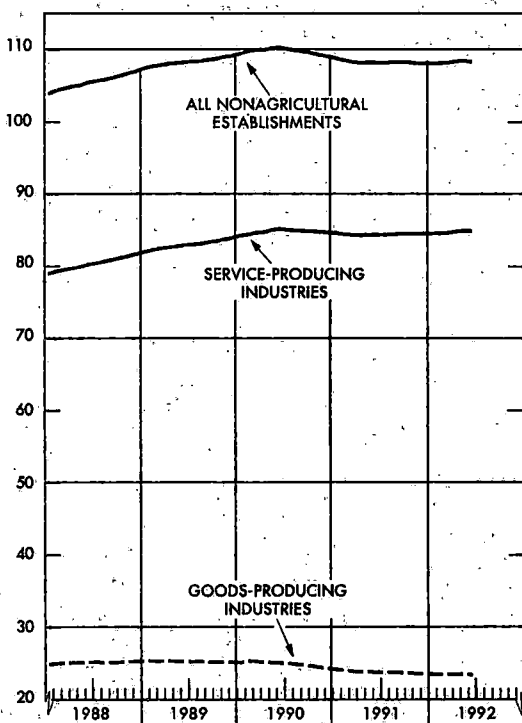
¹ Includes State (50 States, District of Columbia, Puerto Rico, and Virgin Islands), ex-service-men (UCX), Federal (UCFE), and railroad (RR) programs. Also includes Federal and State extended benefit programs. Does not include Federal supplemental compensation program.

Source: Department of Labor (Bureau of Labor Statistics and Employment and Training Administration).

NONAGRICULTURAL EMPLOYMENT

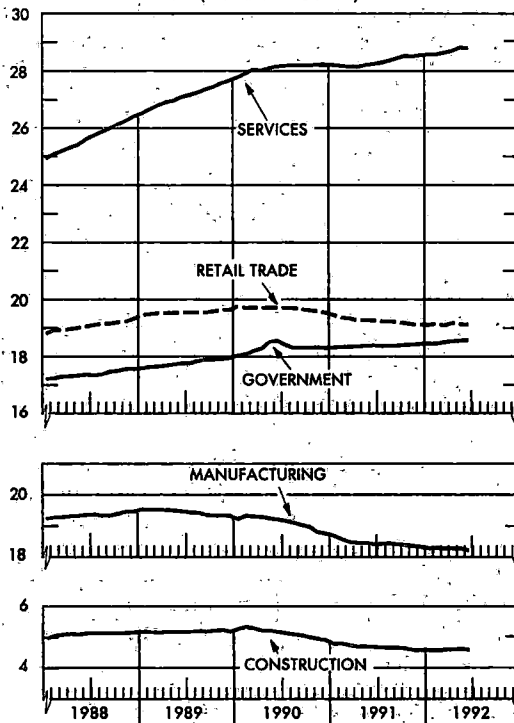
Total nonagricultural employment as measured by the payroll survey fell 117,000 in June.

MILLIONS OF PERSONS*



* SEASONALLY ADJUSTED
SOURCE: DEPARTMENT OF LABOR

MILLIONS OF PERSONS* (ENLARGED SCALE)



COUNCIL OF ECONOMIC ADVISERS

[Thousands of wage and salary workers; ¹ seasonally adjusted]

Period	Total nonagricultural employment	Goods-producing industries					Service-producing industries							
		Total ²	Construction	Manufacturing			Total	Transportation and public utilities	Wholesale trade	Retail trade	Finance, insurance, and real estate	Services	Government	
				Total	Durable goods	Nondurable goods							Total	Federal
1982	89,566	23,813	3,905	18,781	11,014	7,767	65,753	5,082	5,296	15,161	5,341	19,036	15,837	2,739
1983	90,200	23,334	3,948	18,434	10,707	7,726	66,866	4,954	5,286	15,595	5,468	19,694	15,869	2,774
1984	94,496	24,727	4,383	19,378	11,479	7,899	69,769	5,159	5,574	16,526	5,689	20,797	16,024	2,807
1985	97,519	24,859	4,673	19,260	11,464	7,796	72,660	5,238	5,736	17,336	5,955	21,999	16,394	2,875
1986	99,525	24,558	4,816	18,965	11,208	7,761	74,967	5,255	5,774	17,909	6,283	23,053	16,693	2,899
1987	102,200	24,708	4,967	19,024	11,167	7,858	77,492	5,372	5,865	18,462	6,547	24,235	17,010	2,943
1988	105,536	25,173	5,110	19,350	11,381	7,969	80,363	5,527	6,055	19,077	6,649	25,669	17,386	2,971
1989	108,329	25,322	5,187	19,442	11,420	8,022	83,007	5,644	6,221	19,549	6,695	27,120	17,779	2,988
1990	109,782	24,960	5,133	19,117	11,130	7,988	84,822	5,808	6,200	19,677	6,729	28,103	18,304	3,085
1991	108,310	23,830	4,685	18,455	10,602	7,852	84,480	5,772	6,069	19,259	6,678	28,323	18,380	2,966
1991: June ..	108,227	23,809	4,692	18,420	10,587	7,833	84,418	5,763	6,069	19,268	6,674	28,251	18,393	2,970
July ..	108,190	23,792	4,674	18,425	10,586	7,839	84,398	5,767	6,064	19,238	6,662	28,289	18,378	2,965
Aug ..	108,267	23,791	4,662	18,443	10,582	7,861	84,476	5,773	6,050	19,244	6,661	28,366	18,382	2,970
Sept ..	108,293	23,755	4,662	18,414	10,557	7,857	84,538	5,769	6,049	19,220	6,663	28,450	18,387	2,978
Oct ..	108,285	23,704	4,642	18,388	10,530	7,858	84,581	5,766	6,040	19,175	6,665	28,525	18,410	2,980
Nov ..	108,139	23,613	4,585	18,361	10,498	7,863	84,526	5,761	6,031	19,130	6,666	28,514	18,424	2,981
Dec ..	108,154	23,584	4,592	18,329	10,466	7,863	84,570	5,758	6,021	19,112	6,670	28,559	18,450	2,983
1992: Jan ..	108,100	23,527	4,587	18,283	10,422	7,861	84,573	5,746	6,010	19,118	6,665	28,577	18,457	2,981
Feb ..	108,142	23,525	4,582	18,290	10,430	7,860	84,617	5,753	6,003	19,143	6,673	28,584	18,461	2,981
Mar ..	108,200	23,532	4,603	18,278	10,417	7,861	84,668	5,754	5,997	19,092	6,675	28,643	18,507	2,989
Apr ..	108,377	23,530	4,605	18,279	10,409	7,870	84,847	5,746	5,993	19,177	6,682	28,707	18,542	2,986
May ..	108,470	23,540	4,627	18,271	10,395	7,876	84,930	5,742	5,990	19,137	6,682	28,820	18,559	2,985
June ¹ ..	108,353	23,444	4,595	18,213	10,364	7,849	84,909	5,752	5,974	19,117	6,677	28,805	18,584	2,975

¹ Includes all full- and part-time wage and salary workers in nonagricultural establishments who received pay for any part of the pay period which includes the 12th of the month. Excludes proprietors, self-employed persons, domestic servants, and personnel of the Armed Forces. Total derived from this table not comparable with estimates of nonagricultural employment of the civilian labor force, shown on p. 11, which include proprietors, self-employed persons, and domestic servants; which count persons as employed when they are not at work because of industrial disputes, bad

weather, etc., even if they are not paid for the time off; and which are based on a sample of the working-age population, whereas the estimates in this table are based on reports from employing establishments.

² Includes mining, not shown separately.

Source: Department of Labor, Bureau of Labor Statistics.

AVERAGE WEEKLY HOURS, HOURLY EARNINGS, AND WEEKLY EARNINGS

PRIVATE NONAGRICULTURAL INDUSTRIES

[For production or nonsupervisory workers; monthly data seasonally adjusted, except as noted]

Period	Average weekly hours			Average gross hourly earnings			Average gross weekly earnings						Percent change from a year earlier, total private nonagricultural ³	
	Total private nonagri-cultural ¹	Manufacturing		Total private nonagricultural ¹		Manufac-turing	Total private nonagricultural ¹		Current dollars					
		Total	Overtime	Current dollars	1982 dollars ²		Current dollars	1982 dollars ²	Manufac-turing	Construc-tion	Retail trade			
												Current dollars	1982 dollars	
1982.....	34.8	38.9	2.3	\$7.68	\$7.68	\$8.49	\$267.26	\$267.26	\$330.26	\$426.82	\$163.83	4.7	-1.2	
1983.....	35.0	40.1	3.0	8.02	7.79	8.83	280.70	272.52	354.08	442.97	171.13	5.0	2.0	
1984.....	35.2	40.7	3.4	8.32	7.80	9.19	292.86	274.73	374.03	458.51	174.47	4.3	.8	
1985.....	34.9	40.5	3.3	8.57	7.77	9.54	299.09	271.16	386.37	464.46	174.81	2.1	-1.3	
1986.....	34.8	40.7	3.4	8.76	7.81	9.73	304.85	271.94	396.01	466.75	175.80	1.9	.3	
1987.....	34.8	41.0	3.7	8.98	7.73	9.91	312.50	269.16	406.31	480.44	178.80	2.5	-1.0	
1988.....	34.7	41.1	3.9	9.28	7.69	10.19	322.02	266.79	418.81	495.73	183.62	3.0	-.9	
1989.....	34.6	41.0	3.8	9.66	7.64	10.48	334.24	264.22	429.68	513.17	188.72	3.8	-1.0	
1990.....	34.5	40.8	3.6	10.01	7.52	10.83	345.35	259.47	441.86	526.01	194.40	3.3	-1.8	
1991.....	34.3	40.7	3.6	10.33	7.45	11.18	354.32	255.64	455.03	533.02	198.77	2.6	-1.5	
1991: June.....	34.5	40.7	3.6	10.35	7.48	11.17	357.08	258.01	454.62	533.27	200.45	3.0	-1.5	
July.....	34.2	40.7	3.6	10.34	7.46	11.21	353.63	255.14	456.25	533.02	198.93	1.8	-2.4	
Aug.....	34.3	40.9	3.7	10.38	7.47	11.24	356.03	256.32	459.72	533.14	199.91	2.8	-.7	
Sept.....	34.4	40.9	3.7	10.39	7.46	11.25	357.42	256.58	460.13	537.98	200.20	2.7	-.4	
Oct.....	34.3	40.9	3.7	10.40	7.45	11.27	356.72	255.53	460.94	533.78	200.07	3.2	.5	
Nov.....	34.4	40.9	3.7	10.42	7.44	11.30	358.45	255.85	462.17	529.84	202.05	3.0	.2	
Dec.....	34.5	41.0	3.7	10.46	7.45	11.32	360.87	257.03	464.12	538.37	202.62	3.1	.4	
1992: Jan.....	34.3	40.9	3.6	10.46	7.44	11.27	358.78	255.36	460.94	530.22	202.91	3.0	.6	
Feb.....	34.6	41.1	3.7	10.51	7.46	11.34	363.65	258.27	466.07	526.55	205.61	3.9	1.1	
Mar.....	34.5	41.1	3.8	10.55	7.46	11.37	363.98	257.23	467.31	532.87	205.06	4.2	1.2	
Apr ^r	34.3	41.1	3.9	10.52	7.42	11.42	360.84	254.47	469.36	535.95	202.77	3.1	.1	
May ^r	34.6	41.3	4.0	10.56	7.44	11.44	365.38	257.31	472.47	547.71	205.06	3.4	.6	
June ^r	34.3	41.1	3.9	10.58	7.43	11.44	362.89	254.84	470.18	543.09	203.06	1.9	-1.0	

¹ Also includes other private industry groups shown on p. 14.

² Current dollar earnings divided by the consumer price index for urban wage earners and clerical workers (on a 1982=100 base).

³ Based on seasonally unadjusted data.

Source: Department of Labor, Bureau of Labor Statistics.

EMPLOYMENT COST INDEX—PRIVATE INDUSTRY

Period	Index (June 1989 = 100)			Percent change from					
	Total compensation	Wages and salaries	Benefits ¹	3 months earlier			12 months earlier		
				Total compensation	Wages and salaries	Benefits ¹	Total compensation	Wages and salaries	Benefits ¹
	Not seasonally adjusted								
1982: Dec.....	75.8	77.6	71.4	1.3	1.2	1.4	6.5	6.3	7.2
1983: Dec.....	80.1	81.4	76.7	1.3	1.1	1.3	5.7	4.9	7.4
1984: Dec.....	84.0	84.8	81.7	1.3	1.2	1.4	4.9	4.2	6.5
1985: Dec.....	87.3	88.3	84.6	.6	.6	.5	3.9	4.1	3.5
1986: Dec.....	90.1	91.1	87.5	.7	.6	.6	3.2	3.2	3.4
1987: Dec.....	93.1	94.1	90.5	.6	.6	1.0	3.3	3.3	3.4
1988: Dec.....	97.6	98.0	96.7	1.0	1.0	1.0	4.8	4.1	6.9
1989: Dec.....	102.3	102.0	102.6	1.1	.8	1.2	4.8	4.1	6.1
1990: Dec.....	107.0	106.1	109.4	.8	.7	1.0	4.6	4.0	6.6
1991: Dec.....	111.7	110.0	116.2	.6	.6	.9	4.4	3.7	6.2
	Seasonally adjusted						Not seasonally adjusted		
1989: Mar.....	98.9	99.1	98.2	1.1	1.0	1.2	4.6	4.2	5.4
June.....	99.9	100.0	99.9	1.0	.9	1.7	4.5	4.1	5.6
Sept.....	101.2	101.1	101.5	1.3	1.1	1.6	4.8	4.3	6.0
Dec.....	102.4	102.2	103.0	1.2	1.1	1.5	4.8	4.1	6.1
1990: Mar.....	103.8	103.3	105.2	1.4	1.1	2.1	5.2	4.2	7.2
June.....	105.0	104.4	106.7	1.2	1.1	1.4	5.2	4.5	6.9
Sept.....	106.2	105.4	108.3	1.1	1.0	1.5	4.9	4.2	6.8
Dec.....	107.2	106.2	109.9	.9	.8	1.5	4.6	4.0	6.6
1991: Mar.....	108.5	107.3	111.4	1.2	1.0	1.4	4.4	4.0	5.8
June.....	109.7	108.4	113.2	1.1	1.0	1.6	4.4	3.7	6.2
Sept.....	110.8	109.2	115.1	1.0	.7	1.7	4.5	3.7	6.4
Dec.....	111.9	110.1	116.7	1.0	.8	1.4	4.4	3.7	6.2
1992: Mar.....	113.0	111.0	118.4	1.0	.8	1.5	4.2	3.4	6.3
June.....	113.7	111.5	119.4	.6	.5	.8	3.7	3.0	5.5

¹ Employer costs for employee benefits.

NOTE.—The employment cost index is a measure of the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

Data exclude farm and household workers.

Source: Department of Labor, Bureau of Labor Statistics.

PRODUCTIVITY AND RELATED DATA, BUSINESS SECTOR

Period	Output per hour of all persons		Output ¹		Hours of all persons ²		Compensation per hour ³		Real compensation per hour ⁴		Unit labor costs		Implicit price deflator ⁵	
	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector	Business sector	Nonfarm business sector
1982=100; quarterly data seasonally adjusted														
1981.....	99.9	99.9	102.4	102.4	102.5	102.5	93.0	93.0	98.7	98.8	93.1	93.1	94.5	94.2
1982.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1983.....	102.2	102.4	104.1	104.4	101.8	102.0	103.7	103.9	100.5	100.7	101.5	101.5	103.4	104.0
1984.....	104.6	104.5	112.6	113.0	107.6	108.1	108.1	108.1	100.4	100.4	103.3	103.4	107.7	107.6
1985.....	106.1	105.4	116.7	116.8	109.9	110.8	113.0	112.6	101.3	101.0	106.5	106.8	111.2	111.6
1986.....	108.3	107.5	119.9	120.1	110.7	111.8	118.6	118.1	104.4	104.0	109.5	109.9	113.6	114.2
1987.....	109.4	108.3	124.8	125.0	114.1	115.4	122.7	122.1	104.3	103.7	112.2	112.8	116.6	117.2
1988.....	110.4	109.2	130.1	130.6	117.9	119.5	128.0	127.2	104.4	103.7	116.0	116.4	120.8	121.4
1989.....	109.5	108.2	132.4	132.8	120.9	122.7	132.5	131.5	103.1	102.3	121.0	121.5	126.0	126.4
1990.....	109.9	108.4	132.9	133.2	120.9	122.9	139.9	138.6	103.3	102.3	127.3	127.9	130.8	131.3
1991.....	110.7	109.1	130.9	131.0	118.3	120.1	146.1	144.8	103.5	102.6	132.0	132.7	135.1	136.0
1982: IV	101.1	101.0	100.0	100.0	98.9	98.9	102.1	102.1	100.6	100.6	101.0	101.1	101.1	101.4
1983: IV	103.0	103.2	107.5	108.1	104.3	104.7	105.2	105.1	100.4	100.3	102.1	101.8	104.8	105.2
1984: IV	105.2	105.1	114.4	114.8	108.7	109.2	109.7	109.7	100.6	100.5	104.3	104.4	109.0	109.0
1985: IV	106.9	105.8	118.0	118.2	110.4	111.7	115.4	114.8	102.2	101.6	108.0	108.4	112.4	112.9
1986: IV	108.0	107.1	120.6	120.8	111.6	112.8	120.6	120.1	105.3	104.9	111.6	112.1	114.6	115.2
1987: IV	110.3	109.1	127.4	127.6	115.5	116.9	125.3	124.6	104.8	104.2	113.6	114.2	117.9	118.5
1988: IV	110.5	109.6	131.7	132.5	119.2	120.9	130.2	129.3	104.3	103.6	117.8	118.0	122.8	123.4
1989: III	109.4	108.1	132.4	132.8	121.1	122.9	132.9	131.8	102.9	102.1	121.5	122.0	126.4	126.9
1989: IV	109.3	108.0	132.2	132.6	121.0	122.8	134.2	133.2	102.8	102.0	122.8	123.3	127.6	128.0
1990: I	109.5	108.0	133.2	133.5	121.6	123.6	136.1	134.8	102.5	101.6	124.3	124.9	128.8	129.2
1990: II	110.3	108.7	133.9	134.1	121.3	123.3	139.1	137.7	103.7	102.7	126.1	126.7	130.2	130.6
1990: III	110.1	108.4	132.9	133.1	120.7	122.8	141.5	140.1	103.7	102.7	128.6	129.3	131.6	132.2
1990: IV	109.9	108.4	131.8	132.0	119.9	121.7	143.1	141.8	103.2	102.2	130.1	130.8	132.5	133.3
1991: I	109.9	108.4	130.2	130.4	118.5	120.2	144.0	142.8	103.0	102.1	131.0	131.7	134.0	134.9
1991: II	110.5	109.0	130.7	130.9	118.4	120.1	145.7	144.5	103.6	102.7	131.9	132.6	135.0	135.7
1991: III	111.0	109.4	131.3	131.4	118.3	120.1	147.0	145.7	103.8	102.9	132.5	133.2	135.6	136.4
1991: IV	111.5	109.8	131.5	131.5	118.0	119.8	148.0	146.5	103.6	102.6	132.8	133.5	135.9	136.9
1992: I ^p	112.2	110.5	131.9	131.9	117.5	119.4	148.9	147.3	103.5	102.4	132.6	133.3	136.7	137.7
Percent change; quarterly data at seasonally adjusted annual rates														
1981.....	1.3	0.9	1.9	1.6	0.6	0.7	9.4	9.6	-0.8	-0.7	8.0	8.6	10.1	10.1
1982.....	.1	.1	-2.3	-2.4	-2.5	-2.4	7.6	7.5	1.3	1.2	7.4	7.4	5.8	6.1
1983.....	2.2	2.4	4.1	4.4	1.8	2.0	3.7	3.9	.5	.7	1.5	1.5	3.4	4.0
1984.....	2.3	2.1	8.2	8.2	5.7	6.0	4.2	4.0	-1	-3	1.9	1.9	4.1	3.5
1985.....	1.4	.8	3.6	3.4	2.1	2.5	4.5	4.2	.9	.6	3.0	3.3	3.3	3.7
1986.....	2.0	1.9	2.8	2.8	.7	.9	4.9	4.9	3.0	3.0	2.8	2.9	2.2	2.4
1987.....	1.0	.8	4.1	4.1	3.1	3.3	3.5	3.4	-1	-2	2.5	2.6	2.6	2.6
1988.....	.9	.9	4.3	4.4	3.3	3.5	4.3	4.1	.1	.0	3.3	3.2	3.6	3.6
1989.....	-7	-9	1.8	1.7	2.6	2.7	3.5	3.4	-1.2	-1.4	4.3	4.3	4.3	4.1
1990.....	.4	.1	.4	.3	.0	.1	5.6	5.4	.2	.0	5.2	5.3	3.8	3.9
1991.....	.7	.7	-1.5	-1.6	-2.2	-2.3	4.4	4.5	.2	.3	3.8	3.8	3.3	3.5
1989: III	-1.1	-2	-.1	.1	1.0	.3	3.2	3.6	0	.4	4.3	3.8	2.7	3.0
1989: IV	-4	-5	-6	-7	-2	-2	4.0	4.1	-2	-1	4.4	4.6	3.7	3.5
1990: I	.9	.1	3.0	2.7	2.0	2.6	5.8	5.1	-1.2	-1.8	4.8	5.0	4.0	3.8
1990: II	3.0	2.7	2.0	1.8	-1.0	-9	9.2	8.9	4.8	4.6	6.0	6.1	4.3	4.5
1990: III	-1.0	-1.2	-3.0	-3.0	-2.0	-1.8	7.1	7.1	0	.0	8.1	8.4	4.4	4.8
1990: IV	-4	.2	-3.0	-3.1	-2.6	-3.3	4.4	4.8	-2.3	-1.9	4.9	4.6	2.8	3.4
1991: I	-.1	.0	-4.9	-4.9	-4.8	-4.9	2.7	2.9	-.5	-.3	2.9	2.8	4.5	4.8
1991: II	2.0	2.0	1.7	1.6	-.4	-.4	4.8	4.9	2.3	2.3	2.7	2.8	2.9	2.5
1991: III	1.9	1.7	1.8	1.6	-.1	-.1	3.5	3.5	.8	.8	1.6	1.7	1.8	2.1
1991: IV	1.8	1.3	.5	.4	-1.2	-.9	2.7	2.2	-.9	-1.3	.9	.9	1.0	1.5
1992: I ^p	2.8	2.7	1.1	1.2	-1.6	-1.5	2.4	2.2	-.4	-.6	-.4	-.5	2.5	2.4

¹ Output refers to gross domestic product originating in the sector in 1987 dollars.

² Hours of all persons engaged in the sector, including hours of proprietors and unpaid family workers. Estimates based primarily on establishment data.

³ Wages and salaries of employees plus employers' contributions for social insurance and private benefit plans. Also includes an estimate of wages, salaries, and supplemental payments for the self-employed.

⁴ Hourly compensation divided by the consumer price index for all urban consumers.

⁵ Current dollar gross domestic product divided by constant dollar gross domestic product.

NOTE.—Data relate to all persons engaged in the sector. Percent changes are from preceding period and are based on original data; they therefore may differ slightly from percent changes based on indexes shown here.

Data do not reflect GDP revisions of July 30, 1992.

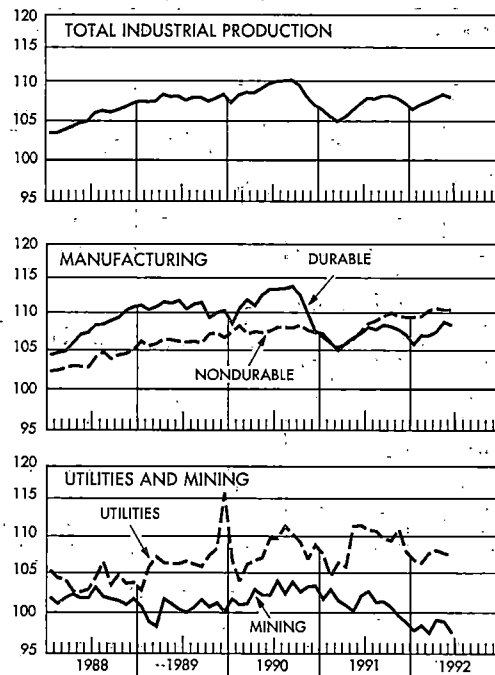
Source: Department of Labor, Bureau of Labor Statistics.

PRODUCTION AND BUSINESS ACTIVITY

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

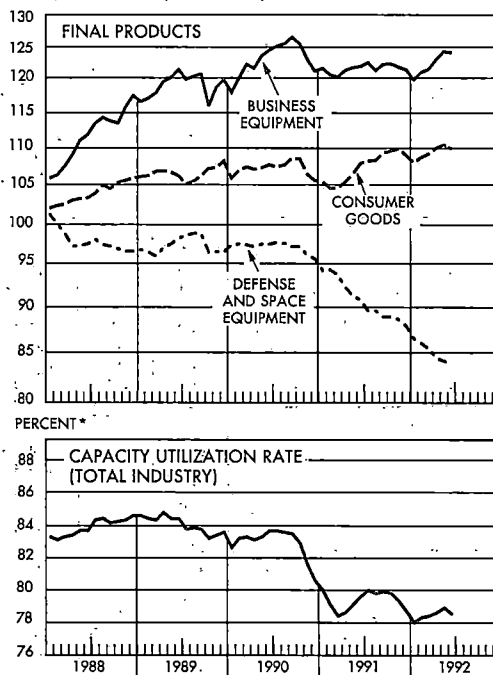
Industrial production and capacity utilization fell in June.

INDEX, 1987 = 100* (RATIO SCALE)



* SEASONALLY ADJUSTED
SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INDEX, 1987 = 100* (RATIO SCALE)



COUNCIL OF ECONOMIC ADVISERS

[Monthly data seasonally adjusted]

Period	Total industrial production		Industry production indexes, 1987=100					Capacity utilization rate, percent ¹	
	Index, 1987=100	Percent change from year earlier	Manufacturing			Mining	Utilities	Total industry	Manufacturing
			Total	Durable	Nondurable				
1981.....	85.7	1.9	80.3	77.4	84.5	114.3	94.3	80.9	78.8
1982.....	81.9	-4.4	76.6	72.7	82.5	109.3	91.8	75.0	72.8
1983.....	84.9	3.7	80.9	76.8	87.0	104.8	93.6	75.8	74.9
1984.....	92.8	9.3	89.3	88.4	90.8	111.9	97.0	81.1	80.4
1985.....	94.4	1.7	91.6	91.8	91.5	109.0	99.5	80.3	79.5
1986.....	95.3	1.0	94.3	93.9	94.9	101.0	96.3	79.2	79.0
1987.....	100.0	4.9	100.0	100.0	100.0	100.0	100.0	81.4	81.4
1988.....	105.4	5.4	105.8	107.6	103.6	101.8	104.4	84.0	83.9
1989.....	108.1	2.6	108.9	110.9	106.4	100.5	107.1	84.2	83.9
1990.....	109.2	1.0	109.9	111.6	107.8	102.6	108.0	83.0	82.3
1991.....	107.1	-1.9	107.5	107.1	107.9	101.1	109.2	79.4	78.2
1991: June.....	107.3	-2.5	107.5	107.3	107.6	102.1	111.5	79.6	78.3
July.....	108.1	-2.1	108.3	108.1	108.6	102.7	110.9	80.0	78.7
Aug.....	108.0	-2.3	108.4	107.8	109.0	101.3	110.7	79.8	78.6
Sept.....	108.4	-2.0	108.9	108.4	109.6	101.4	109.7	79.9	78.8
Oct.....	108.4	-1.4	109.0	108.2	110.1	100.7	109.4	79.8	78.7
Nov.....	108.1	-2	108.6	107.8	109.6	99.6	111.0	79.3	78.2
Dec.....	107.4	.2	108.1	107.1	109.5	98.8	107.9	78.7	77.7
1992: Jan.....	106.6	.0	107.4	105.8	109.5	97.8	106.8	78.0	77.0
Feb.....	107.2	1.4	108.1	107.0	109.6	98.4	106.4	78.3	77.4
Mar.....	107.6	2.5	108.5	107.0	110.4	97.5	107.7	78.4	77.5
Apr.....	108.1	2.5	108.9	107.5	110.7	99.1	108.1	78.6	77.7
May.....	108.6	2.1	109.6	108.8	110.5	98.9	107.7	78.9	78.0
June.....	108.2	.8	109.3	108.4	110.5	97.5	107.4	78.5	77.6

¹ Output as percent of capacity.

Source: Board of Governors of the Federal Reserve System.

INDUSTRIAL PRODUCTION—MAJOR MARKET GROUPS AND SELECTED MANUFACTURES

[1987=100; monthly data seasonally adjusted]

Period	Products										Materials	
	Final products							Intermediate products			Total	Ener- gy
	Total	Consumer goods			Equipment			Total	Con- struction supplies	Busi- ness sup- plies		
		Total	Dura- ble goods	Nondur- able goods	Total ¹	Busi- ness	De- fense and space equip- ment					
1982.....	80.8	84.5	68.7	89.7	77.0	72.9	65.7	75.1	72.2	77.0	85.1	100.7
1983.....	83.0	88.8	79.7	91.9	76.8	71.9	71.8	80.3	80.2	80.3	88.3	98.9
1984.....	91.0	92.8	91.0	93.4	89.2	85.4	78.9	86.2	86.2	86.2	96.6	103.8
1985.....	94.2	98.7	91.6	94.4	94.8	91.1	89.4	88.3	89.1	87.7	96.6	103.4
1986.....	95.7	96.8	94.5	97.6	94.5	93.2	96.0	92.0	93.8	90.7	95.9	99.4
1987.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988.....	105.6	104.0	104.9	103.7	107.6	111.8	98.0	104.4	104.4	104.4	105.6	101.8
1989.....	109.1	106.7	107.9	106.4	112.3	119.1	97.4	106.8	106.1	107.3	107.4	101.4
1990.....	110.9	107.3	106.2	107.6	115.5	123.1	97.3	107.7	105.2	109.4	107.8	102.1
1991.....	109.6	107.5	102.3	109.0	112.2	121.5	91.1	103.4	96.0	108.4	105.5	102.3
1991: June.....	110.1	108.0	104.2	109.0	112.8	121.9	91.0	104.0	97.4	108.5	105.4	103.4
July.....	110.2	108.3	105.5	109.0	112.8	122.5	90.0	104.0	96.9	109.0	107.0	104.1
Aug.....	109.8	108.4	104.0	109.6	111.6	121.3	89.8	104.4	96.7	109.7	107.2	103.3
Sept.....	110.4	109.4	107.7	109.8	111.8	122.2	89.1	104.3	96.5	109.7	107.5	103.6
Oct.....	110.6	109.7	107.5	110.3	111.9	122.3	89.1	104.1	95.4	110.1	107.4	103.1
Nov.....	110.6	110.0	106.0	111.1	111.4	121.8	88.8	103.9	95.9	109.4	106.6	102.2
Dec.....	109.9	109.1	104.6	110.3	110.9	121.4	88.1	103.8	95.0	110.0	105.8	100.4
1992: Jan.....	108.7	108.1	101.3	110.0	109.4	119.9	86.7	103.9	95.5	109.9	105.2	100.4
Feb.....	109.4	108.8	105.3	109.8	110.2	121.0	86.2	104.0	96.0	109.6	105.8	100.5
Mar ^r	109.8	109.3	106.2	110.2	110.4	121.5	85.6	104.4	96.7	109.7	106.1	100.1
Apr ^r	110.6	110.1	107.7	110.7	111.3	123.0	84.6	104.0	96.3	109.4	106.7	101.3
May ^r	111.1	110.5	111.1	110.3	112.0	124.2	84.3	104.6	97.3	109.6	107.1	100.9
June ^p	110.7	110.0	110.2	109.9	111.7	124.0	83.9	104.2	96.1	109.8	106.9	100.1

¹ Includes oil and gas well drilling and manufactured homes, not shown separately.

[1987=100; monthly data seasonally adjusted]

Period	Durable manufactures								Nondurable manufactures			
	Primary metals		Fabricated metal products	Non-electrical machinery	Electrical machinery	Transportation equipment		Lumber and products	Apparel products	Printing and publishing	Chemicals and products	Foods
	Total	Iron and steel				Total	Motor vehicles and parts					
1982.....	83.2	86.2	83.2	63.9	75.9	64.8	58.8	67.3	90.1	75.2	81.8	87.7
1983.....	91.0	96.1	85.5	64.3	80.3	72.7	74.5	79.9	93.8	79.0	87.5	90.1
1984.....	102.4	105.9	93.3	80.8	94.1	83.1	90.6	86.0	95.7	84.5	91.4	92.1
1985.....	101.8	104.5	94.5	86.8	93.1	91.8	99.0	88.0	92.6	87.6	91.4	94.9
1986.....	93.8	90.8	93.8	90.4	94.3	96.9	98.5	95.1	96.3	90.7	94.6	97.4
1987.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988.....	110.3	113.8	106.2	113.8	106.5	105.0	105.5	104.6	102.2	103.6	105.4	102.8
1989.....	109.2	109.3	107.2	121.8	109.5	107.2	104.9	103.0	104.3	108.5	108.5	105.5
1990.....	108.4	109.9	105.9	126.5	111.4	105.5	96.8	101.6	98.8	111.9	110.3	107.6
1991.....	99.5	98.0	100.4	123.5	110.1	98.6	90.4	94.2	96.2	112.3	110.9	108.6
1991: June.....	96.4	92.9	99.8	123.4	111.5	99.7	92.5	96.7	96.2	111.2	109.6	108.6
July.....	101.2	99.5	100.9	123.9	111.0	101.3	96.7	94.8	97.8	111.9	111.5	108.3
Aug.....	102.6	100.6	101.4	123.3	111.5	99.0	91.6	95.3	98.3	112.3	112.3	108.7
Sept.....	102.3	100.8	101.9	123.1	111.0	102.2	99.5	95.2	98.1	113.3	112.6	109.5
Oct.....	102.6	102.4	101.9	123.5	109.8	102.4	100.4	93.8	98.7	114.4	113.5	109.4
Nov.....	103.5	105.6	101.8	122.8	110.7	99.7	95.9	96.4	98.8	114.2	113.0	110.1
Dec.....	101.3	101.7	101.2	121.9	110.6	98.0	94.6	95.2	99.0	114.5	112.6	109.6
1992: Jan.....	102.5	105.0	99.7	121.4	110.0	93.8	87.1	97.4	97.5	114.8	112.7	109.2
Feb.....	102.7	103.7	100.5	121.9	110.7	96.8	93.8	98.8	97.7	114.4	113.4	109.6
Mar r.....	101.4	102.5	100.0	122.9	110.9	96.5	94.2	99.2	97.8	113.8	114.8	110.2
Apr r.....	100.8	101.0	100.6	124.1	110.7	98.0	98.5	97.2	98.0	114.1	115.3	109.9
May r.....	100.8	100.4	102.1	126.2	112.1	99.8	102.7	96.7	99.0	114.4	115.6	109.4
June p.....	102.3	102.8	101.5	126.2	111.6	98.4	100.1	94.3	98.6	114.3	115.6	108.9

Source: Board of Governors of the Federal Reserve System.

NEW CONSTRUCTION

[Monthly data seasonally adjusted]

Period	Total new construction expenditures	Private						Construction contracts ⁵	
		Total	Residential		Commercial and industrial ²	Other	Federal, State, and local	Total value index (1987=100)	Commercial and industrial floor space (millions of square feet)
			Total ¹	New housing units					
Billions of dollars									
1983	294.9	231.5	125.5	94.6	57.7	48.2	63.5	75	766
1984	348.8	278.6	153.8	113.8	74.0	50.8	70.2	83	955
1985	377.4	299.5	158.5	114.7	89.8	51.3	77.8	91	1,087
1986	407.7	323.1	187.1	138.2	84.4	51.6	84.6	96	1,016
1987	419.4	328.7	194.7	139.9	84.0	50.1	90.6	100	1,019
1988	483.8	387.5	198.1	138.9	88.0	51.5	94.8	101	973
1989	443.4	345.3	196.6	139.2	94.3	54.5	98.1	105	961
1990	442.1	334.2	182.9	128.0	96.4	54.9	107.9	95	788
1991	401.0	290.7	157.8	110.6	77.0	55.8	110.2	89	545
Annual rates									
1991: June	394.3	286.3	154.9	107.7	75.7	55.8	107.9	83	438
July	397.0	287.7	157.0	110.0	74.8	55.9	109.3	89	469
Aug	404.8	291.8	161.5	114.4	74.0	56.3	113.1	92	507
Sept	406.0	293.6	164.2	117.1	72.9	56.5	112.4	98	408
Oct	406.1	291.7	164.7	117.5	70.1	56.3	112.4	98	625
Nov	401.2	288.3	164.5	118.0	67.4	56.4	112.9	82	474
Dec	398.7	287.4	164.1	118.3	67.3	56.0	111.4	97	479
1992: Jan	407.1	292.5	169.5	122.0	65.8	57.2	114.6	95	472
Feb	411.8	294.8	169.8	123.3	66.7	58.3	117.0	102	563
Mar	421.5	301.1	172.7	126.9	69.1	58.4	120.4	98	497
Apr	423.1	305.5	178.9	128.9	65.9	60.7	117.6	94	499
May	423.4	303.1	178.7	128.5	68.6	60.8	120.3	87	423
June	416.9	303.5	180.7	130.1	62.9	59.8	113.4	90	525

¹ Includes residential improvements, not shown separately.

² Includes hotels and motels.

³ F.W. Dodge series.

NOTE.—New construction expenditures series revised beginning 1987.

Sources: Department of Commerce (Bureau of the Census) and McGraw-Hill Information Systems Company, F.W. Dodge Division.

NEW PRIVATE HOUSING AND VACANCY RATES

[Thousands of units or homes, except as noted]

Period	New private housing units ¹					New private homes		Vacancy rate for rental housing units ² (percent)	
	Units started, by type of structure				Units authorized	Units completed	Homes sold		Homes for sale at end of period ¹
	Total	1 unit	2-4 units	5 or more units					
1982	1,062.2	662.6	80.0	319.6	1,000.5	1,005.5	412	253	5.3
1983	1,703.0	1,067.6	113.5	522.0	1,605.2	1,390.3	623	301	5.7
1984	1,749.5	1,084.2	121.4	544.0	1,681.8	1,652.2	639	335	5.9
1985	1,741.8	1,072.4	93.4	576.1	1,733.3	1,703.3	688	346	6.5
1986	1,805.4	1,179.4	84.0	542.0	1,769.4	1,736.4	750	357	7.3
1987	1,620.5	1,146.4	65.3	408.7	1,534.8	1,668.8	671	366	7.7
1988	1,488.1	1,081.3	58.8	348.0	1,455.6	1,599.8	676	368	7.7
1989	1,376.1	1,003.3	55.2	317.6	1,398.4	1,432.8	650	365	7.4
1990	1,192.7	894.8	37.5	260.4	1,110.8	1,308.0	534	321	7.2
1991	1,013.9	840.4	35.6	137.9	948.8	1,090.8	509	283	7.4
Seasonally adjusted annual rates									
1991: May	983	830	36	117	988	1,072	511	296	7.3
June	1,036	870	26	140	956	1,104	518	296	7.3
July	1,036	881	46	136	971	1,065	505	295	7.3
Aug	1,053	881	41	131	940	1,051	522	292	7.6
Sept	1,020	864	28	128	974	1,193	499	292	7.6
Oct	1,085	887	48	149	994	1,073	526	289	7.6
Nov	1,085	907	33	145	979	1,021	578	286	7.3
Dec	1,118	972	46	100	1,073	1,091	578	283	7.3
1992: Jan	1,180	989	28	163	1,106	1,043	667	281	7.3
Feb	1,257	1,109	24	124	1,146	1,097	627	289	7.3
Mar	1,340	1,068	35	219	1,094	1,127	555	277	7.4
Apr	1,086	933	27	126	1,052	1,052	535	275	7.4
May	1,205	1,035	30	140	1,054	1,187	530	273	7.4
June ²	1,167	1,010	47	110	1,032	1,187	572	274	7.7

¹ Seasonally adjusted.

² Quarterly data entered in last month of quarter. Series beginning 1989 not comparable with earlier data.

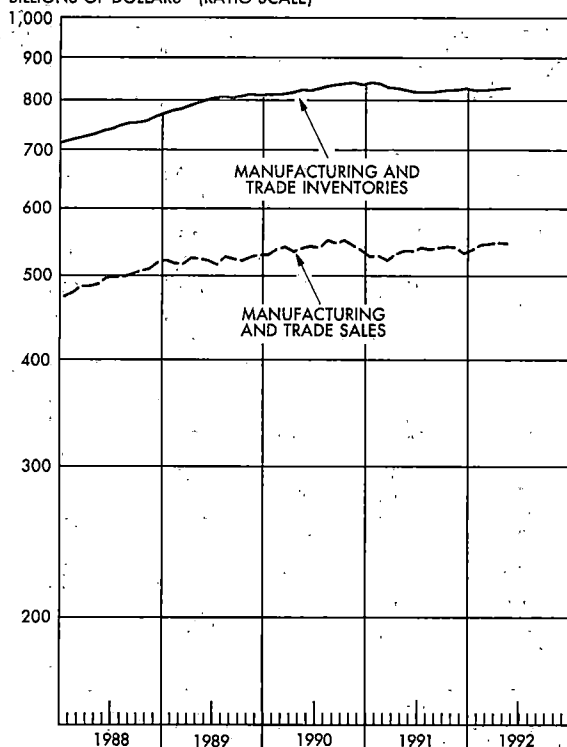
NOTE.—Beginning 1984, units authorized are for 17,000 permit-issuing places; for 1978-83 data are for 16,000 places.

Source: Department of Commerce, Bureau of the Census.

BUSINESS SALES AND INVENTORIES—Manufacturing and Trade

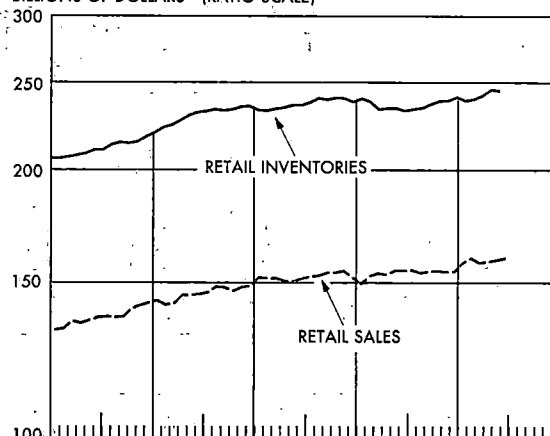
In May, manufacturing and trade sales fell 0.2 percent and inventories rose \$0.5 billion. In June, according to advance data, retail sales rose 0.5 percent, following a rise of 0.4 percent in May.

BILLIONS OF DOLLARS * (RATIO SCALE)

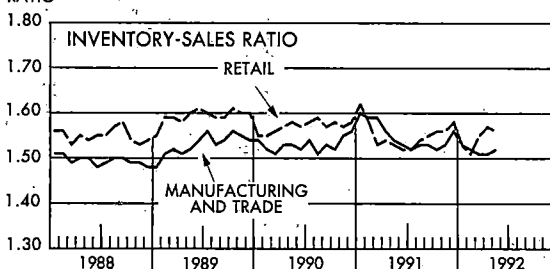


* SEASONALLY ADJUSTED
SOURCE: DEPARTMENT OF COMMERCE

BILLIONS OF DOLLARS * (RATIO SCALE)



RATIO *



COUNCIL OF ECONOMIC ADVISERS

Period	Manufacturing and trade ¹		Wholesale		Retail						Inventory-sales ratio ⁴	
	Sales ²	Inventories ³	Sales ²	Inventories ³	Sales ²			Inventories ³			Manufacturing and trade ¹	Retail
					Total	Durable goods stores	Nondurable goods stores	Total	Durable goods stores	Nondurable goods stores		
Millions of dollars, seasonally adjusted, except as noted												
1982.....	348,771	575,486	96,357	129,024	89,062	27,966	61,097	134,628	61,316	73,312	1.67	1.49
1983.....	370,501	591,858	100,440	131,663	97,514	32,571	64,943	147,833	68,856	78,977	1.56	1.44
1984.....	411,427	651,527	113,502	144,223	107,243	37,873	69,369	167,812	79,074	88,738	1.53	1.49
1985.....	423,940	665,837	114,816	149,155	114,586	41,510	73,075	181,881	88,315	93,566	1.55	1.52
1986.....	431,786	664,654	116,326	155,445	120,803	45,057	75,746	186,510	89,983	96,527	1.55	1.56
1987.....	459,107	711,745	124,340	165,814	128,442	47,989	80,453	207,836	105,481	102,355	1.50	1.55
1988.....	496,334	767,387	135,254	180,717	137,539	52,219	85,320	219,274	111,892	107,382	1.50	1.55
1989.....	522,344	813,018	144,039	188,635	145,580	54,329	91,252	237,599	120,138	117,461	1.53	1.59
1990.....	540,788	835,985	149,204	196,917	152,126	55,065	97,061	240,217	119,331	120,886	1.53	1.57
1991.....	533,838	828,184	145,135	198,979	153,562	54,413	99,149	243,162	117,454	125,708	1.55	1.55
1991: May ^r	535,424	824,177	145,085	195,308	154,686	54,814	99,872	236,336	115,674	120,662	1.54	1.53
June.....	535,012	820,357	145,511	194,583	154,594	54,877	99,717	234,736	114,017	120,719	1.53	1.52
July.....	539,729	819,641	147,238	195,217	154,875	54,819	100,056	235,650	114,364	121,286	1.52	1.52
Aug.....	537,373	819,746	145,710	195,323	153,819	54,080	99,739	236,523	115,121	121,402	1.53	1.54
Sept.....	539,269	822,401	146,103	194,007	154,330	55,223	99,107	238,842	116,582	122,260	1.53	1.55
Oct.....	541,247	824,672	145,766	195,371	154,569	55,450	99,119	240,746	117,293	123,453	1.52	1.56
Nov.....	540,382	825,505	145,310	196,347	154,092	54,722	99,370	240,879	116,873	124,006	1.53	1.56
Dec.....	531,919	828,184	144,909	198,979	154,280	55,406	98,874	243,162	117,454	125,708	1.56	1.58
1992: Jan.....	536,977	824,150	145,922	198,730	157,808	56,919	100,889	240,986	115,918	125,068	1.53	1.53
Feb.....	544,017	824,609	146,366	199,416	159,753	57,961	101,792	241,938	117,259	124,679	1.52	1.51
Mar.....	545,424	826,204	146,867	198,677	157,873	57,122	100,751	244,288	119,827	124,461	1.51	1.55
Apr ^r	547,081	828,630	146,947	198,432	158,385	57,442	100,943	247,992	122,884	125,108	1.51	1.57
May ^p	546,154	829,137	145,670	198,516	159,005	57,878	101,127	247,335	122,758	124,577	1.52	1.56
June ^p					159,762	58,281	101,481					

¹ See page 21 for manufacturing.

² Annual data are average of monthly not seasonally adjusted figures; monthly data are seasonally adjusted total for month.

³ Seasonally adjusted, end of period.

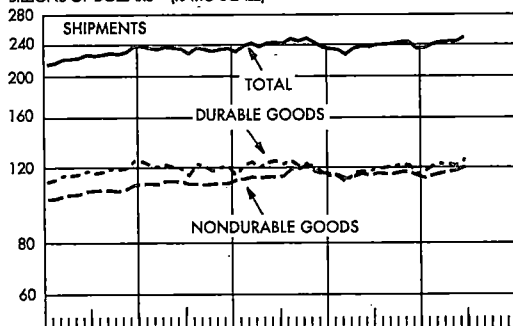
⁴ Annual data are averages of seasonally adjusted monthly ratios.

Source: Department of Commerce, Bureau of the Census.

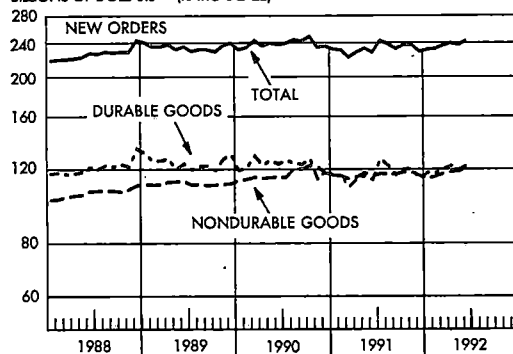
MANUFACTURERS' SHIPMENTS, INVENTORIES, AND ORDERS

In June, manufacturers' shipments and new orders rose, while inventories and unfilled orders fell.

BILLIONS OF DOLLARS* (RATIO SCALE)

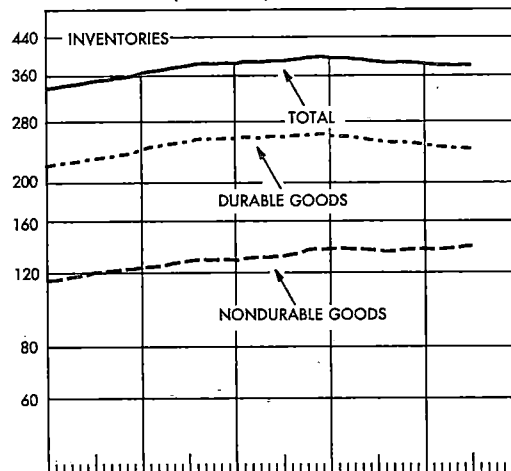


BILLIONS OF DOLLARS* (RATIO SCALE)

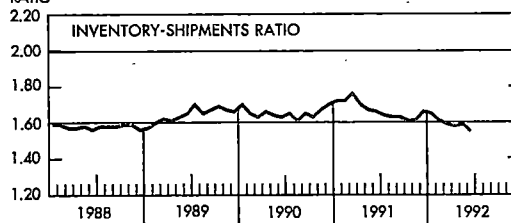


* SEASONALLY ADJUSTED
SOURCE: DEPARTMENT OF COMMERCE

BILLIONS OF DOLLARS* (RATIO SCALE)



RATIO*



COUNCIL OF ECONOMIC ADVISERS

Period	Manufacturers' shipments ¹			Manufacturers' inventories ²			Manufacturers' new orders ¹				Manufacturers' unfilled orders ²	Manufacturers' inventory-shipments ratio ³
	Total	Durable goods	Nondurable goods	Total	Durable goods	Nondurable goods	Total	Durable goods		Nondurable goods		
								Total	Capital goods industries, non-defense			
Millions of dollars, seasonally adjusted, except as noted												
1982	163,351	79,212	84,139	311,834	200,423	111,411	162,140	78,064	19,213	84,077	311,889	1.95
1983	172,547	85,481	87,066	312,362	199,831	112,531	175,451	88,140	19,624	87,311	347,272	1.78
1984	190,682	97,940	92,742	339,492	221,304	118,188	192,879	100,164	23,669	92,715	373,524	1.73
1985	194,538	101,279	93,259	334,801	218,211	116,590	195,706	102,356	24,545	93,351	387,087	1.73
1986	194,657	103,238	91,419	322,699	212,027	110,672	195,204	103,647	23,983	91,557	393,403	1.68
1987	206,326	108,128	98,198	338,095	220,786	117,309	209,389	110,809	26,095	98,579	430,287	1.59
1988	223,541	117,993	105,549	367,396	241,356	126,040	227,026	121,445	30,729	105,581	471,942	1.58
1989	232,724	121,703	111,022	386,784	255,911	130,873	235,905	124,906	32,725	110,999	510,112	1.64
1990	239,459	122,387	117,072	398,851	259,746	139,105	240,417	123,324	32,227	117,093	521,811	1.65
1991	235,142	118,548	116,593	386,043	246,966	139,077	233,774	117,063	29,862	116,712	505,631	1.67
1991: June	234,907	118,904	116,003	391,038	252,919	138,119	229,219	113,478	27,558	115,741	509,370	1.66
July	237,616	120,222	117,394	388,774	251,459	137,315	244,580	127,153	34,982	117,427	516,334	1.64
Aug	237,844	121,021	116,823	387,900	250,520	137,380	239,750	122,630	29,462	117,120	518,240	1.63
Sept	236,836	121,958	116,878	389,552	251,319	138,233	233,703	116,528	28,762	117,175	513,107	1.63
Oct	240,912	122,771	118,141	388,555	249,738	138,817	238,542	120,227	29,452	118,315	510,737	1.61
Nov	240,980	122,814	118,166	388,279	249,202	139,077	238,680	120,344	33,067	118,336	508,436	1.61
Dec	232,730	116,869	115,861	386,043	246,966	139,077	229,924	113,920	26,968	116,004	505,631	1.66
1992: Jan	233,247	118,698	114,549	384,434	245,754	138,680	232,467	118,011	30,093	114,456	504,851	1.65
Feb	237,898	121,991	115,907	383,255	244,395	138,860	233,388	117,750	29,463	115,638	500,341	1.61
Mar	240,684	123,503	117,181	383,239	243,787	139,452	237,606	120,187	32,163	117,419	497,263	1.59
Apr ^r	241,749	123,483	118,266	382,206	242,512	139,694	240,771	122,393	29,901	118,378	496,285	1.58
May ^p	241,479	122,344	119,135	383,286	242,447	140,839	238,696	119,808	30,469	118,888	493,502	1.59
June ^p	247,318	126,069	121,249	382,881	241,570	141,311	244,205	123,091	31,160	121,114	490,389	1.55

¹ Annual data are average of monthly not seasonally adjusted figures; monthly data are seasonally adjusted total for month. Shipments are the same as sales.

² Seasonally adjusted, end of period.

³ Annual data are averages of seasonally adjusted monthly ratios.

Source: Department of Commerce, Bureau of the Census.

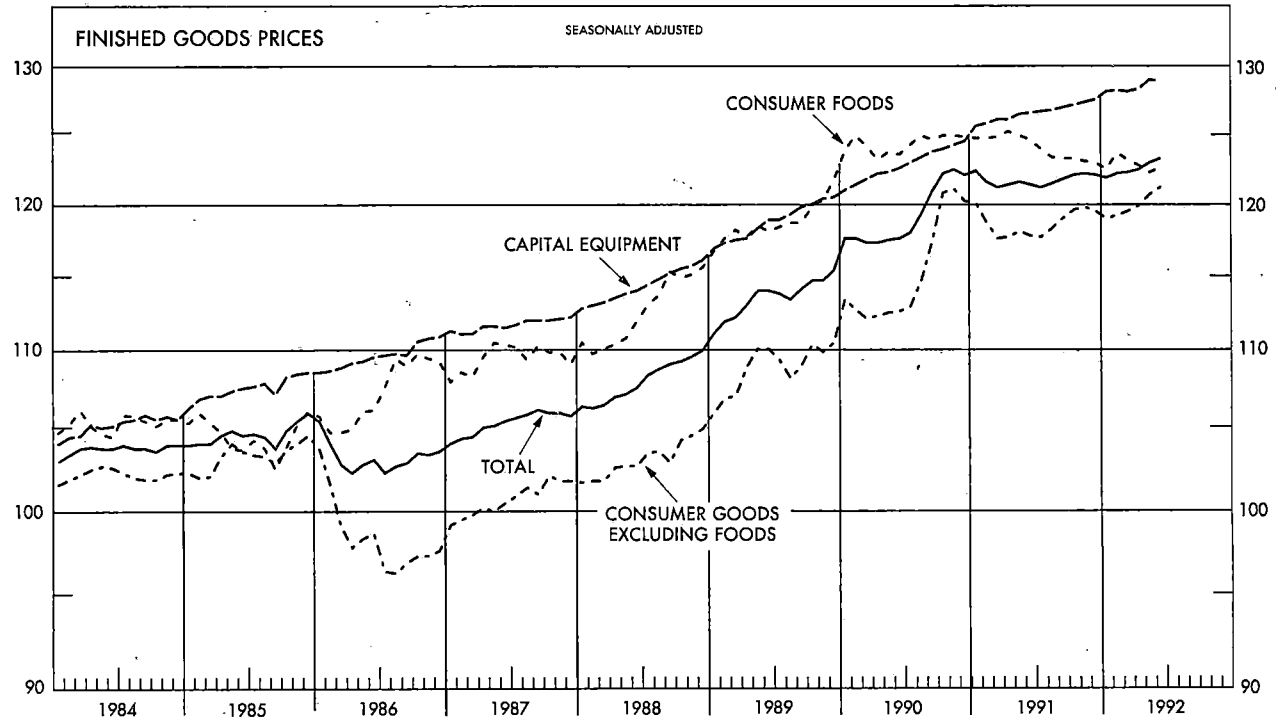
PRICES

PRODUCER PRICES

In June, the producer price index for all finished goods rose 0.2 percent. Prices of finished consumer foods rose 0.2 percent and prices of other finished consumer goods rose 0.4 percent. Capital equipment prices fell 0.1 percent.

INDEX, 1982 = 100 (RATIO SCALE)

INDEX, 1982 = 100 (RATIO SCALE)



SOURCE: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

[1982=100; monthly data seasonally adjusted]

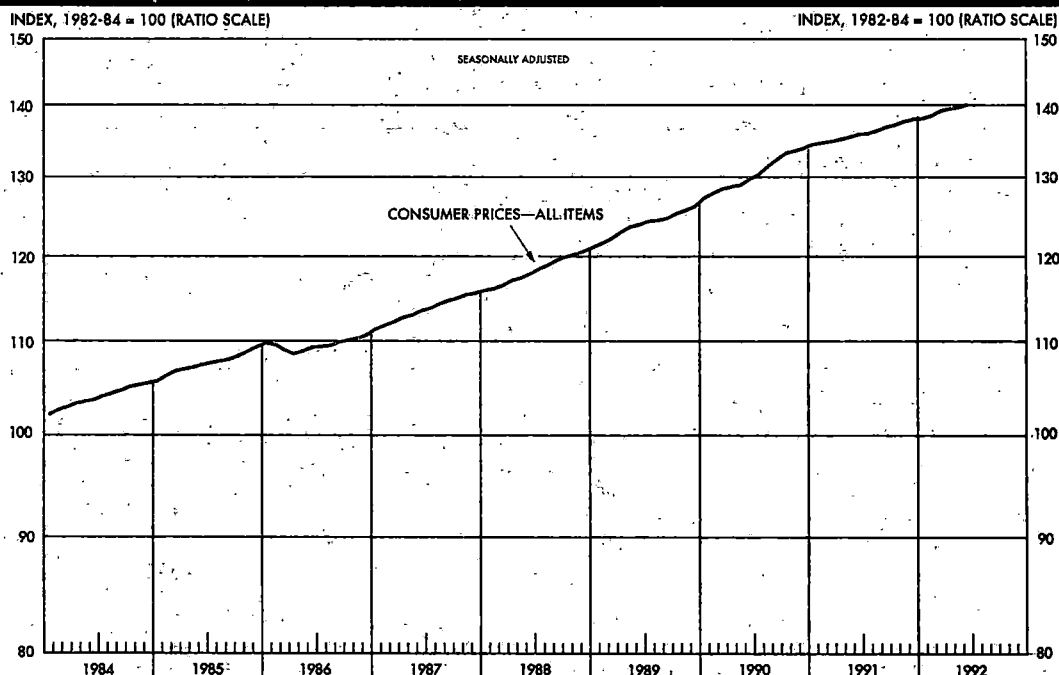
Period	Finished goods							Intermediate materials			Crude materials			
	Total finished goods	Con- sumer foods	Finished goods excluding consumer foods					Total finished con- sumer goods	Total	Foods and feeds ¹	Other	Total	Food- stuffs and feed- stuffs	Other
			Total	Consumer goods			Capital equip- ment							
				Total	Durable	Nondurable								
1982	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1983	101.6	101.0	101.8	101.2	102.8	100.5	102.8	101.3	100.6	103.6	100.5	101.3	101.8	100.7
1984	103.7	105.4	103.2	102.2	104.5	101.1	105.2	103.3	103.1	105.7	103.0	103.5	104.7	102.2
1985	104.7	104.6	104.6	103.3	106.5	101.7	107.5	103.8	102.7	97.3	103.0	95.8	94.8	96.9
1986	103.2	107.3	101.9	98.5	108.9	93.3	109.7	101.4	99.1	96.2	99.3	87.7	93.2	81.6
1987	105.4	109.5	104.0	100.7	111.5	94.9	111.7	103.6	101.5	99.2	101.7	93.7	96.2	87.9
1988	108.0	112.6	106.5	103.1	113.8	97.3	114.3	106.2	107.1	109.5	106.9	96.0	106.1	85.5
1989	113.6	118.7	111.8	108.9	117.6	103.8	118.8	112.1	112.0	113.8	111.9	103.1	111.2	93.4
1990	119.2	124.4	117.4	115.3	120.4	111.5	122.9	118.2	114.5	113.3	114.5	108.9	113.1	101.5
1991	121.7	124.2	120.9	118.7	123.9	115.0	126.7	120.5	114.4	111.1	114.6	101.2	105.5	94.6
1991: June	121.4	124.7	120.2	117.8	123.3	114.2	126.7	120.1	114.2	110.2	114.4	99.3	106.0	91.5
	121.2	124.0	120.1	117.7	123.5	114.0	126.8	119.8	113.8	108.5	114.1	99.3	104.2	92.4
	121.5	123.4	120.6	118.3	123.8	114.9	126.9	120.2	114.1	110.6	114.3	99.1	102.6	93.1
	121.8	123.3	121.2	119.0	124.3	115.3	127.1	120.4	114.3	110.8	114.5	98.4	104.2	91.1
Oct	122.1	123.3	121.7	119.6	124.4	116.1	127.3	120.8	114.0	111.7	114.2	100.5	104.2	94.2
Nov	122.2	123.1	121.9	119.8	124.6	116.2	127.5	120.9	114.0	112.0	114.1	100.4	103.5	94.5
Dec	122.1	123.0	121.7	119.5	124.7	115.8	127.7	120.7	113.9	111.9	114.0	98.3	102.9	91.6
1992: Jan	121.9	122.5	121.6	119.0	125.4	114.9	128.3	120.2	113.2	110.8	113.3	97.3	104.8	88.8
	122.2	123.7	121.7	119.2	125.2	115.2	128.4	120.6	113.7	112.1	113.8	99.0	106.9	90.2
	122.3	123.2	122.0	119.5	125.6	115.5	128.3	120.7	113.9	111.6	114.0	97.9	106.0	89.1
	122.5	122.8	122.2	119.9	125.8	116.1	128.5	121.0	114.0	111.3	114.1	98.4	104.5	90.7
	123.0	122.3	123.0	120.7	125.7	117.3	129.2	121.4	114.4	111.2	114.6	99.8	105.4	92.5
	123.3	122.6	123.3	121.2	125.6	118.1	129.1	121.9	115.2	111.7	115.4	101.1	106.2	94.0

¹ Intermediate materials for food manufacturing and feeds.

Source: Department of Labor, Bureau of Labor Statistics.

CONSUMER PRICES—ALL URBAN CONSUMERS

In June, the consumer price index for all urban consumers rose 0.3 percent, seasonally adjusted (it rose 0.4 percent not seasonally adjusted). The index was 3.1 percent above its year-earlier level.



SEE NOTE ON TABLE BELOW
SOURCE: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

[1982-84=100, except as noted; monthly data seasonally adjusted, except as noted]

Period	All items ¹		Food	Housing						Appar- el and upkeep	Transportation			Medi- cal care	Ener- gy ²	All items less food and energy
	Not season- ally adjust- ed (NSA)	Season- ally adjust- ed		Total ¹	Shelter				Fuel 'and other utili- ties							
					Total	Rent- ers' costs (Dec. 1982= 100)	Home- own- ers' costs (Dec. 1982= 100)	Mainte- nance. and repairs (NSA)								
Rel. imp. ³	100.0		16.0	41.5	27.9	8.0	19.7	0.2	7.3	6.1	17.0	4.1	3.3	6.7	7.4	76.6
1982.....	96.5		97.4	96.9	96.9			96.4	94.9	97.8	97.0	97.4	102.8	92.5	99.2	95.8
1983.....	99.6		99.4	99.5	99.1	103.0	102.5	99.9	100.2	100.2	99.3	99.9	99.4	100.6	99.9	99.6
1984.....	103.9		103.2	103.6	104.0	108.6	107.3	103.7	104.8	102.1	103.7	102.8	97.9	106.8	100.9	104.6
1985.....	107.6		105.6	107.7	109.8	115.4	113.1	106.5	106.5	105.0	106.4	106.1	98.7	113.5	101.6	109.1
1986.....	109.6		109.0	110.9	115.8	121.9	119.4	107.9	104.1	105.9	102.3	110.6	77.1	122.0	88.2	113.5
1987.....	113.6		113.5	114.2	121.3	128.1	124.8	111.8	103.0	110.6	105.4	114.6	80.2	130.1	88.6	118.2
1988.....	118.3		118.2	118.5	127.1	133.6	131.1	114.7	104.4	115.4	108.7	116.9	80.9	138.6	89.3	123.4
1989.....	124.0		125.1	123.0	132.8	138.9	137.3	118.0	107.8	118.6	114.1	119.2	88.5	149.3	94.3	129.0
1990.....	130.7		132.4	128.5	140.0	146.7	144.6	122.2	111.6	124.1	120.5	121.0	101.2	162.8	102.1	135.5
1991.....	136.2		136.3	133.6	146.3	155.6	150.2	126.3	115.3	128.7	123.8	125.3	99.4	177.0	102.5	142.1
1991:																
June.....	136.0	136.1	137.3	133.2	145.8	154.6	149.9	126.2	114.4	127.8	123.4	125.5	98.7	176.6	101.1	142.0
July.....	136.2	136.2	136.6	133.6	146.1	155.0	150.2	126.9	115.0	127.7	123.6	125.7	97.1	177.7	100.6	142.4
Aug.....	136.6	136.6	136.3	133.8	146.4	155.2	150.5	127.2	115.3	129.2	124.2	125.9	98.0	178.9	101.2	143.0
Sept.....	137.2	137.1	136.5	134.2	146.9	155.8	151.1	126.8	115.7	130.0	124.2	126.3	97.9	180.0	101.4	143.6
Oct.....	137.4	137.4	136.4	134.6	147.4	156.3	151.6	126.6	116.2	130.3	124.0	126.2	97.3	181.1	101.4	143.9
Nov.....	137.8	137.9	137.0	135.0	147.9	156.6	152.1	127.6	116.8	131.1	124.5	126.3	98.2	182.0	102.2	144.4
Dec.....	137.9	138.2	137.4	135.4	148.4	157.3	152.7	128.1	116.8	129.6	124.8	126.5	98.5	183.3	102.3	144.7
1992:																
Jan.....	138.1	138.3	136.8	135.7	149.1	158.4	153.2	128.0	116.4	130.0	124.4	126.6	96.3	184.5	100.8	145.1
Feb.....	138.6	138.7	137.2	136.0	149.5	158.9	153.6	128.3	115.9	131.9	124.2	126.7	95.7	186.0	99.9	145.7
Mar.....	139.3	139.4	137.9	136.5	150.0	158.5	154.5	128.4	116.4	132.7	125.1	127.2	96.6	187.0	100.5	146.4
Apr.....	139.5	139.7	137.8	136.7	150.2	158.9	154.6	128.0	116.9	131.8	125.7	127.8	96.8	188.0	100.9	146.8
May.....	139.7	139.9	137.3	136.9	150.4	159.5	154.7	128.1	117.1	132.3	126.1	128.0	97.9	189.0	101.5	147.1
June.....	140.2	140.3	137.5	137.5	151.1	160.4	155.3	128.5	117.5	132.0	126.7	128.5	101.0	189.8	103.5	147.4

¹ Includes items not shown separately.

² Household fuels—gas (piped), electricity, fuel oil, etc.—and motor fuel. Motor oil, coolant, etc. also included through 1982.

³ Relative importance, December 1991.

NOTE.—Data beginning 1983 incorporate a rental equivalence measure for homeownership costs and therefore are not strictly comparable with figures for earlier periods.

Data beginning 1987 and 1988 calculated on a revised basis.

Source: Department of Labor, Bureau of Labor Statistics.

CHANGES IN PRODUCER PRICES FOR FINISHED GOODS

[Percent change from preceding period; monthly data seasonally adjusted, except as noted by NSA]

Period	Change from preceding period				Change from 3 months earlier, annual rate				Change from 6 months earlier, annual rate				Change from year earlier, total finished goods NSA	
	Total finished goods	Consumer goods		Capital equipment	Total finished goods	Consumer goods		Capital equipment	Total finished goods	Consumer goods		Capital equipment		
		Foods	Excluding foods			Foods	Excluding foods			Foods	Excluding foods			
Change, Dec. to Dec., NSA														
1982.....	3.6	2.0	4.2	3.9										4.1
1983.....	2.6	2.3	2.9	2.0										1.6
1984.....	1.7	3.5	1.8	1.8										2.1
1985.....	1.8	.6	2.1	2.7										1.0
1986.....	-2.3	2.8	-6.6	2.1										-1.4
1987.....	2.2	-2	4.1	1.3										2.1
1988.....	4.0	5.7	3.1	3.6										2.5
1989.....	4.9	5.2	5.3	3.8										5.2
1990.....	5.7	2.6	8.7	3.4										4.9
1991.....	-1	-1.5	-7	2.5										2.1
Change, month to month														
1991: June.....	-0.2	-0.2	-0.3	0.1	-0.7	-0.6	0.7	1.6	-1.1	-0.3	-4.0	3.4	3.5	3.5
July.....	-2	-6	-1	1.1	-7	-4.1	0	1.9	-2.0	-1.3	-4.0	1.8	2.5	2.5
Aug.....	-2	-5	5	1.1	-3	-5.0	7	1.0	-2	-2.5	-7	1.6	2.0	1.6
Sept.....	2	-1	.6	2	1.3	-4.4	4.1	1.3	1.0	-2.5	2.4	1.4	3	1.4
Oct.....	-2	0	5	2	2.0	-2.2	6.6	1.6	1.2	-3.2	3.3	1.8	-1.1	1.8
Nov.....	-1	-2	2	2	2.3	-1.0	5.2	1.9	1.0	-4	2.9	1.4	-4	1.4
Dec.....	-1	-1	-3	2	1.0	-1.0	1.7	1.9	1.2	-2.7	2.9	1.6	-1.1	1.6
1992: Jan.....	-2	-4	-4	5	-7	-2.6	-2.0	3.2	1.2	-2.4	2.2	2.4	-4	2.4
Feb.....	2	1.0	2	1	0	2.0	-2.0	2.9	1.2	5	1.5	2.4	6	2.4
Mar.....	1	-4	3	-1	7	7	0	1.9	1.8	-2	8	1.9	3	1.9
Apr.....	2	-3	3	2	2.0	1.0	3.1	.6	7	-8	5	1.9	4	1.9
May.....	4	-4	7	5	2.6	-4.5	5.1	2.5	1.3	-1.3	1.5	2.7	1.1	2.7
June.....	2	2	4	-1	3.3	-1.9	5.8	2.5	2.0	-6	2.9	2.2	1.4	2.2

Source: Department of Labor, Bureau of Labor Statistics.

CHANGES IN CONSUMER PRICES—ALL URBAN CONSUMERS

[Percent change from preceding period; monthly data seasonally adjusted, except as noted by NSA]

Period	All items ¹	Food	Housing			Transportation			Motor fuel	Mort- gage rate	Ener- gy ²	All items less food and energy	Addendum: All items, percent change (annual rate)				
			Total ¹	Shelter		Fuel and other utilities	Ap- pliance and equip- ment	Total ¹					New cars	From previ- ous quarter ³	From 3 months earlier	From 6 months earlier	From year earlier NSA
				Rent- ers' costs	Home- owners' costs												
Change, December to December, NSA																	
1982.....	3.8	3.1	3.6	2.4	5.1	9.7	1.6	1.8	1.5	-6.5	11.0	1.3	4.5	6.5	.....	.....	
1983.....	3.8	2.7	3.5	4.7	5.1	1.8	2.9	3.9	3.4	-1.7	6.4	-5	4.8	3.8	.....	.....	
1984.....	3.9	3.8	4.3	5.2	5.9	4.2	2.0	3.1	2.5	-2.4	6.1	2	4.7	4.2	.....	.....	
1985.....	3.8	2.6	4.3	6.0	6.3	5.9	1.8	2.8	3.4	3.1	6.8	1.8	4.3	3.6	.....	.....	
1986.....	1.1	3.8	1.7	4.6	5.0	-5.6	2.8	-5.9	5.9	-30.7	7.7	-19.7	3.8	1.3	.....	.....	
1987.....	4.4	3.5	3.7	4.8	3.9	3.8	4.8	6.1	1.8	18.7	5.8	8.2	4.2	3.6	.....	.....	
1988.....	4.4	5.2	4.0	4.5	4.7	2.9	4.7	8.0	2.1	-2.1	6.9	5	4.7	4.1	.....	.....	
1989.....	4.6	5.6	3.9	4.9	4.5	5.1	3.2	1.0	2.3	6.8	8.5	6.1	4.4	4.8	.....	.....	
1990.....	6.1	5.3	4.5	5.2	6.7	4.7	4.0	5.1	10.4	36.5	9.6	18.1	5.2	5.5	.....	.....	
1991.....	3.1	1.9	3.4	3.9	4.2	2.9	3.4	-1.5	3.3	-16.0	7.9	-7.4	4.4	4.4	.....	.....	
Change, month to month																	
1991: June.....	0.3	0.4	0.2	0.3	0.3	-0.1	-0.6	0.2	0.3	0.1	0.7	-0.2	0.3	2.4	3.0	2.9	
July.....	1	-5	3	3	3	5	-1	2	2	-1.6	6	-5	3	.....	2.4	2.2	
Aug.....	3	-2	3	2	3	3	1.2	5	2	9	7	6	4	2.7	2.7	2.5	
Sept.....	4	1	3	3	4	4	6	0	3	-1	6	2	4	.....	3.0	3.0	
Oct.....	2	-1	3	3	3	5	-2	-2	-1	-6	5	0	2	.....	3.6	3.0	
Nov.....	4	4	3	3	3	4	-6	4	1	9	5	8	3	.....	3.9	3.3	
Dec.....	2	3	3	3	4	0	-1.1	2	2	3	7	1	2	3.6	3.2	3.1	
1992: Jan.....	1	-4	2	5	7	-3	3	-3	1	-2.2	7	-1.5	3	.....	2.6	3.1	
Feb.....	3	3	2	3	3	-4	1.5	-2	1	-6	8	-9	4	.....	2.8	3.1	
Mar.....	3	3	3	3	3	-4	6	7	4	9	5	6	5	2.9	3.5	3.4	
Apr.....	2	-1	3	3	3	-7	8	5	5	2	5	4	4	.....	3.5	3.4	
May.....	1	-4	1	1	1	4	4	5	2	1.1	5	6	3	.....	3.5	2.9	
June.....	3	4	5	6	4	3	-2	5	4	3.2	4	2.0	2	3.5	2.6	3.1	

¹ Includes items not shown separately.

² Households—gas (biped), electricity, fuel oil, etc.—and motor fuel. Motor oil, coolant, etc., also included through 1982.

³ Quarterly changes are shown in the last month of the quarter.

Source: Department of Labor, Bureau of Labor Statistics.

Prices received by farmers in July were 2.1 percent below their June level. Prices paid by farmers in July were 0.5 percent above their April level. (Data are not seasonally adjusted.)



COUNCIL OF ECONOMIC ADVISERS

Period	Prices received by farmers			Prices paid by farmers			Ratio ²
	All farm products	Crops	Livestock and products	All commodities, services, interest, taxes, and wage rates ¹	Production items, interest, taxes, and wage rates	Production items	
1982.....	133	121	145	159	158	153	84
1983.....	135	128	141	161	159	152	84
1984.....	142	138	146	164	161	155	87
1985.....	128	120	136	162	156	151	79
1986.....	123	107	138	159	150	144	77
1987.....	127	106	146	162	152	148	78
1988.....	138	126	150	170	160	157	81
1989.....	147	134	160	178	167	165	83
1990.....	149	137	170	184	172	171	81
1991.....	146	130	161	189	175	173	77
1991: July.....	148	135	162	189	174	173	78
Aug.....	146	133	158	(⁹)	(⁹)	(⁹)	77
Sept.....	147	137	157	(⁹)	(⁹)	(⁹)	78
Oct.....	142	126	158	189	173	172	75
Nov.....	139	124	153	(⁹)	(⁹)	(⁹)	74
Dec.....	137	120	153	(⁹)	(⁹)	(⁹)	72
1992: Jan.....	138	123	152	189	174	171	73
Feb.....	142	128	156	(⁹)	(⁹)	(⁹)	75
Mar.....	143	131	155	(⁹)	(⁹)	(⁹)	76
Apr.....	141	126	155	191	^r 175	^r 174	74
May.....	141	123	157	(⁹)	(⁹)	(⁹)	74
June.....	^r 140	^r 122	^r 157	(⁹)	(⁹)	(⁹)	73
July.....	137	116	158	192	176	174	71

² Percentage ratio of index of prices received by farmers to index of prices paid, interest, taxes, and wage rates. See also footnote 3.

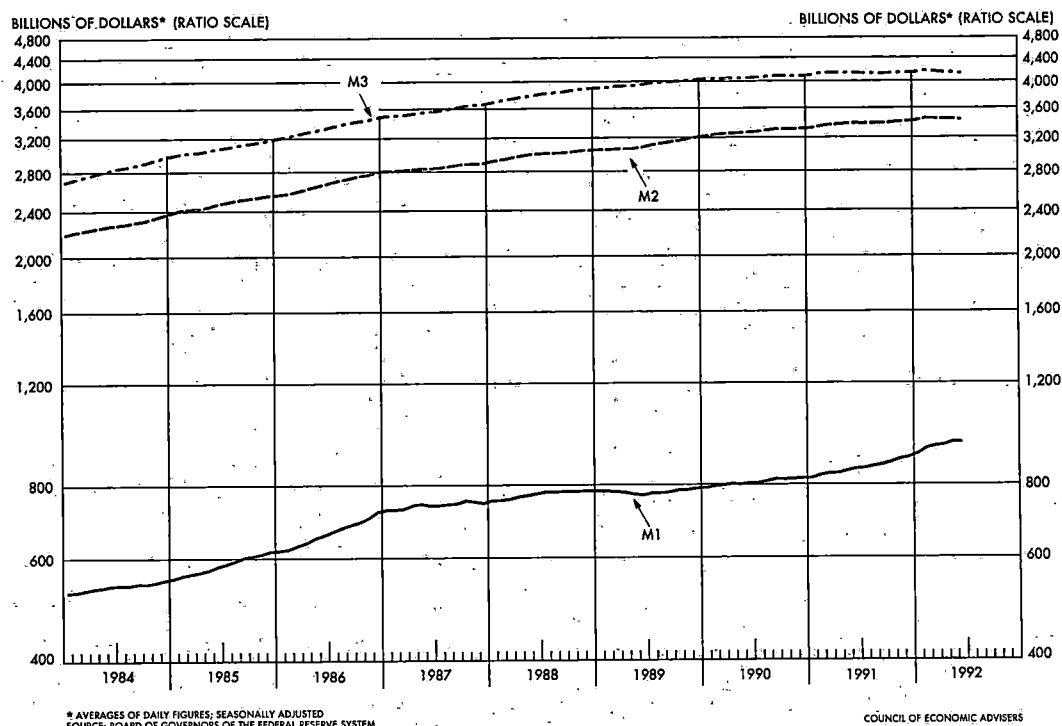
³ Beginning March 1986, prices paid by farmers are available only for first month in quarter, and for each month the received/paid ratio is based on latest data available.

Source: Department of Agriculture.

MONEY, CREDIT, AND SECURITY MARKETS

MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

M2 and M3 fell in June.



[Averages of daily figures, except as noted; billions of dollars, seasonally adjusted]

Period	M1	M2	M3	L	Debt	Percent change from year or 6 months earlier ²			
	Sum of currency, demand deposits, travelers' checks, and other checkable deposits (OCDs)	M1 plus overnight RPs and Eurodollars, MMMF balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits	M2 plus large time deposits, term RPs, term Eurodollars, and institution-only MMMF balances	M3 plus other liquid assets	Debt of domestic nonfinancial sectors (monthly average) ¹	M1	M2	M3	Debt
1982: Dec.....	474.6	1,951.9	2,440.6	2,850.4	4,672.7	8.7	8.9	9.3	9.3
1983: Dec.....	521.4	2,186.1	2,693.0	3,154.3	5,209.4	9.9	12.0	10.3	11.5
1984: Dec.....	552.5	2,374.3	2,987.4	3,528.8	5,963.3	6.0	8.6	10.9	14.5
1985: Dec.....	620.2	2,569.4	3,203.2	3,830.4	6,830.5	12.3	8.2	7.2	14.5
1986: Dec.....	724.6	2,811.1	3,494.3	4,134.5	7,751.2	16.8	9.4	9.1	13.5
1987: Dec.....	750.0	2,910.8	3,681.1	4,339.5	8,520.8	3.5	3.5	5.3	9.9
1988: Dec.....	786.9	3,071.1	3,923.1	4,677.9	9,316.1	4.9	5.5	6.6	9.3
1989: Dec.....	794.1	3,227.3	4,059.8	4,891.7	10,060.0	.9	5.1	3.5	8.0
1990: Dec.....	826.1	3,339.0	4,114.6	4,966.6	10,747.0	4.0	3.5	1.3	6.8
1991: Dec.....	898.1	3,488.9	4,170.4	4,989.3	11,203.6	8.7	3.0	-1.4	4.2
1991: May.....	850.9	3,405.6	4,170.5	4,958.3	10,934.0	6.6	4.3	2.7	4.2
June.....	857.3	3,411.8	4,167.7	4,986.4	10,983.5	7.6	4.4	2.6	4.4
July.....	860.0	3,407.4	4,157.3	4,991.5	11,017.4	8.2	3.8	1.5	4.5
Aug.....	866.5	3,409.5	4,156.6	4,985.1	11,056.6	7.2	2.4	-2.4	4.3
Sept.....	872.0	3,411.5	4,152.6	4,974.2	11,094.7	7.1	1.5	-6.4	4.3
Oct.....	880.9	3,417.3	4,158.7	4,977.7	11,135.6	9.1	1.3	-5.4	4.6
Nov.....	891.4	3,430.9	4,166.5	4,990.7	11,177.5	9.5	1.5	-2.4	4.5
Dec.....	898.1	3,488.9	4,170.4	4,989.3	11,203.6	9.5	1.6	-1.1	4.0
1992: Jan.....	910.4	3,448.0	4,174.5	4,982.9	11,231.9	11.7	2.4	.8	3.9
Feb.....	931.0	3,475.5	4,200.2	5,011.9	11,274.8	14.9	3.9	2.1	3.9
Mar.....	939.0	3,473.9	4,190.5	5,019.5	11,325.0	15.4	3.7	-1.8	4.2
Apr.....	942.9	3,468.1	4,175.7	5,010.3	11,373.1	14.1	3.0	-7.8	4.3
May.....	954.5	3,469.5	4,173.2	5,001.2	11,420.0	14.2	2.3	-7.3	4.3
June.....	952.2	3,458.7	4,157.9			12.0	1.2	-6.4	

¹ Consists of outstanding credit market debt of the U.S. Government, State and local governments, and private nonfinancial sectors; data from flow of funds accounts.

² Annual changes are from December to December and monthly changes are from 6 months earlier at a simple annual rate.

NOTE.—See p. 27 for components.

Source: Board of Governors of the Federal Reserve System.

COMPONENTS OF MONEY STOCK AND LIQUID ASSETS

[Averages of daily figures; billions of dollars, seasonally adjusted, except as noted by NSA]

Period	Currency	Demand deposits	Other checkable deposits (OCDs)	Overnight repurchase agreements (RPs), net, plus overnight Eurodollars ¹	Money market mutual fund balances ²		Savings deposits, including money market deposit accounts (MMDAs)	Small denomination time deposits ³	Large denomination time deposits ³	Term repurchase agreements (RPs)	Term Eurodollars (net)	Savings bonds	Short-term Treasury securities	Bankers' acceptances	Commercial paper			
					General purpose and broker/dealer	Institution only												
				NSA											NSA	NSA		
1982: Dec	132.5	234.0	103.7	39.9	184.5	51.1	398.5	847.2	323.3	33.4	81.7	68.0	183.6	44.5	113.7			
1983: Dec	146.2	238.5	131.8	55.6	138.3	42.7	684.0	780.8	324.8	49.9	91.5	71.1	211.9	45.0	133.2			
1984: Dec	156.1	243.9	147.2	60.6	167.1	63.7	704.2	884.9	415.6	57.6	82.9	74.2	260.9	45.4	160.8			
1985: Dec	167.9	266.7	179.7	73.5	176.1	65.8	814.4	881.7	436.1	62.4	76.5	79.5	298.2	42.0	207.5			
1986: Dec	180.8	302.0	235.3	82.3	208.0	86.1	940.1	854.8	439.5	80.6	83.8	91.8	280.0	37.1	231.2			
1987: Dec	197.0	286.8	259.3	84.1	221.7	92.1	937.0	917.5	489.1	106.0	91.0	100.6	253.0	44.3	260.5			
1988: Dec	212.3	286.5	280.6	83.2	241.9	91.0	926.2	1,032.9	541.2	121.8	105.7	109.4	269.6	39.8	336.1			
1989: Dec	222.6	279.0	285.1	77.6	316.3	107.2	891.2	1,148.5	559.3	99.1	79.5	117.5	325.5	40.1	348.6			
1990: Dec	246.8	277.1	293.9	74.7	348.9	133.7	920.7	1,168.7	494.9	89.6	68.7	126.0	332.7	34.0	359.3			
1991: Dec	267.3	289.5	333.2	75.3	360.5	179.1	1,042.6	1,063.0	437.1	70.9	57.2	137.9	317.9	23.3	339.7			
1991: May	256.6	278.4	307.8	68.5	367.8	155.2	966.1	1,150.9	483.5	80.4	62.3	131.3	299.5	29.1	327.9			
June	257.6	280.1	311.6	67.9	368.8	155.3	976.8	1,140.6	478.3	78.4	61.6	132.4	325.1	28.1	333.0			
July	259.3	279.3	313.7	64.9	367.9	155.4	986.1	1,129.5	471.2	78.8	62.7	133.5	332.8	28.1	339.8			
Aug	261.3	280.1	317.3	67.3	362.4	158.6	994.1	1,120.8	465.5	78.4	63.6	134.4	330.6	27.2	336.3			
Sept	262.9	280.6	320.6	66.4	359.9	162.6	1,002.4	1,111.0	458.5	76.7	61.5	135.2	322.9	25.8	337.7			
Oct	264.8	283.8	324.5	69.4	359.3	168.2	1,015.0	1,095.2	450.0	75.5	62.8	136.1	321.5	25.3	336.2			
Nov	266.0	287.6	329.7	73.0	359.5	173.6	1,028.7	1,079.2	442.3	73.6	61.5	137.1	324.7	24.5	337.9			
Dec	267.3	289.5	333.2	75.3	360.5	179.1	1,042.6	1,063.0	437.1	70.9	57.2	137.9	317.9	23.3	339.7			
1992: Jan	269.4	293.9	339.0	76.7	360.1	182.4	1,061.2	1,042.9	427.9	70.8	55.3	138.9	311.5	23.2	334.8			
Feb	271.6	305.1	346.3	76.5	363.9	188.2	1,083.9	1,019.8	420.7	72.0	55.9	140.1	321.2	22.9	327.5			
Mar	271.8	309.6	349.5	73.0	358.0	185.3	1,098.0	1,002.9	413.0	73.7	57.9	141.2	328.6	22.2	337.0			
Apr	273.6	311.2	350.1	70.8	354.1	189.2	1,111.3	985.4	405.7	72.3	55.0	142.4	328.9	21.6	341.7			
May	274.7	315.2	356.7	66.9	355.0	194.8	1,122.5	968.8	400.8	71.6	52.7	143.5	332.8	22.3	329.4			
June	276.2	311.0	357.0	68.3	353.3	199.7	1,127.1	955.9	396.0	70.0	51.3							

¹ Includes continuing contract RPs.

² Data prior to 1983 are not seasonally adjusted.

³ Small denomination and large denomination deposits are those issued in amounts of less than \$100,000 and more than \$100,000, respectively.

NOTE.—Travelers checks of nonbank issuers are a component of money stock but are not shown here.

Source: Board of Governors of the Federal Reserve System.

AGGREGATE RESERVES AND MONETARY BASE

[Averages of daily figures ¹; millions of dollars; seasonally adjusted, except as noted by NSA]

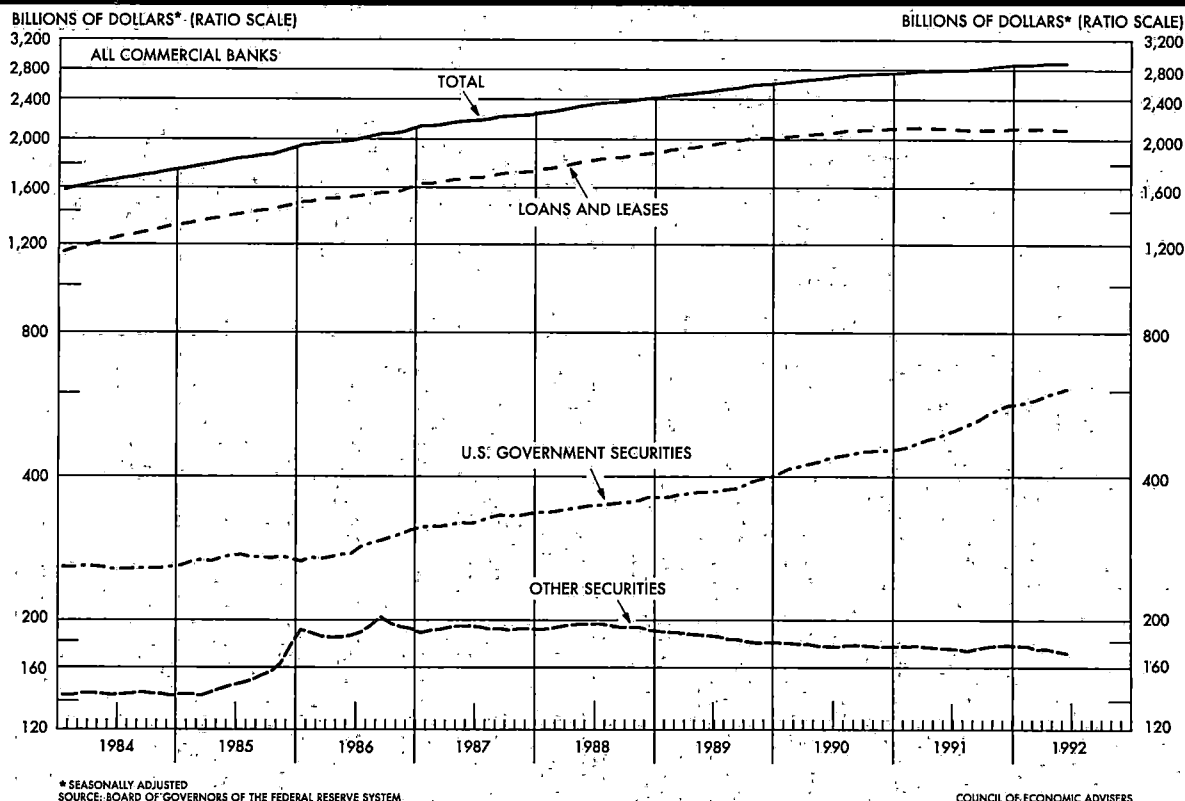
Period	Adjusted for changes in reserve requirements					Borrowings of depository institutions from the Federal Reserve (NSA)		
	Reserves of depository institutions				Monetary base	Total	Seasonal	Extended credit
	Total	Nonborrowed	Nonborrowed plus extended credit	Required				
1982: Dec	23,600	22,966	23,152	23,100	160,127	634	33	186
1983: Dec	25,367	24,593	24,595	24,806	175,467	774	96	2
1984: Dec	26,878	23,692	26,296	26,023	187,248	3,186	113	2,604
1985: Dec	31,485	30,167	30,666	30,448	203,601	1,318	56	499
1986: Dec	39,005	38,179	38,482	37,635	223,732	827	38	303
1987: Dec	38,934	38,157	38,640	37,888	239,967	777	93	483
1988: Dec	40,468	38,752	39,896	39,420	256,973	1,716	130	1,244
1989: Dec	40,558	40,293	40,313	39,636	267,772	265	84	20
1990: Dec	41,832	41,506	41,529	40,167	293,287	326	76	23
1991: Dec	45,601	45,409	45,410	44,623	317,254	192	38	1
1991: June	42,710	42,370	42,377	41,701	305,003	340	222	8
July	42,845	42,238	42,284	41,939	306,794	607	317	46
Aug	43,282	42,517	42,818	42,196	309,132	764	331	300
Sept	43,487	42,841	43,143	42,558	310,929	645	287	302
Oct	44,138	43,877	43,889	43,055	313,281	261	211	12
Nov	44,785	44,677	44,678	43,893	315,332	108	86	1
Dec	45,601	45,409	45,410	44,623	317,254	192	38	1
1992: Jan	46,186	45,953	45,954	45,183	319,695	233	17	1
Feb	47,746	47,668	47,670	46,681	323,411	77	22	2
Mar	48,476	48,385	48,386	47,447	324,512	91	32	2
Apr	49,001	48,911	48,913	47,863	326,500	90	47	2
May	49,494	49,339	49,339	48,494	328,584	155	98	0
June	49,234	49,005	49,005	48,321	329,647	229	149	0

¹ Data are prorated averages of biweekly (maintenance period) averages of daily figures.

Source: Board of Governors of the Federal Reserve System.

BANK LOANS AND SECURITIES

Total commercial bank loans and leases fell 0.1 percent in June; commercial and industrial loans fell 0.6 percent.



[Billions of dollars, seasonally adjusted ¹]

Period	All commercial banks														
	Total loans and securities ²	U.S. Government securities	Other securities	Loans and leases											Other
				Total ²	Commercial and industrial	Real estate	Individual	Security	Non-bank financial institutions	Agricultural	State and political subdivisions	Foreign banks	Foreign official institutions	Lease financing receivables	
1982: Dec	1,400.4	201.7	164.8	1,033.9	392.5	299.9	188.2	25.3	31.2	36.2	0.0	14.7	5.9	13.3	26.8
1983: Dec	1,552.2	259.2	169.1	1,123.9	414.2	331.0	212.9	28.0	30.4	39.2	0	13.4	9.4	13.7	31.8
1984: Dec	1,722.2	260.2	140.9	1,321.1	473.1	376.2	253.8	34.4	31.3	40.1	46.0	11.6	8.4	16.0	30.2
1985: Dec	1,909.5	270.8	179.0	1,459.8	500.2	425.8	294.7	43.0	32.4	36.1	56.7	9.9	6.3	19.0	35.6
1986: Dec	2,093.2	310.0	193.9	1,589.4	537.0	494.0	315.3	40.3	35.0	31.5	58.5	10.3	6.3	22.4	38.8
1987: Dec	2,238.5	335.8	193.6	1,709.1	567.1	586.9	328.3	34.8	32.0	29.4	52.4	7.8	5.7	24.6	40.1
1988: Dec	2,422.8	363.5	192.4	1,866.9	606.8	670.1	354.5	41.2	32.3	28.7	45.1	7.7	5.0	29.3	46.2
1989: Dec	2,590.8	398.2	181.7	2,010.9	640.2	759.5	374.8	41.5	34.3	29.8	40.0	8.2	3.5	31.8	47.1
1990: Dec	2,730.8	454.1	177.9	2,098.8	643.2	843.3	379.6	44.7	35.7	32.0	33.9	7.5	2.8	32.8	43.3
1991: Dec	2,838.0	562.5	179.3	2,096.2	617.8	873.1	363.5	54.5	40.4	34.0	29.1	7.4	2.4	31.7	42.4
1991: June	2,773.3	493.5	176.3	2,103.6	625.8	868.5	373.1	49.0	38.6	33.9	31.4	6.3	2.5	33.3	41.1
1991: July	2,773.8	502.4	175.8	2,095.5	623.8	867.3	370.9	47.4	37.7	34.0	31.0	6.4	2.3	32.5	42.3
1991: Aug	2,776.9	512.6	174.4	2,089.9	619.5	866.7	370.3	48.4	36.9	34.3	30.6	6.5	2.2	31.9	42.7
1991: Sept	2,789.1	523.0	176.3	2,089.8	622.0	868.1	367.3	50.0	37.1	34.5	30.3	6.8	2.3	31.8	39.8
1991: Oct	2,805.5	538.7	177.9	2,088.9	622.6	869.8	364.2	51.1	37.2	34.1	29.7	6.6	2.4	31.6	39.5
1991: Nov	2,822.8	550.8	178.8	2,093.2	621.7	871.9	363.1	53.4	37.8	33.8	29.4	6.9	2.5	31.5	41.1
1991: Dec	2,838.0	562.5	179.3	2,096.2	617.8	873.1	363.5	54.5	40.4	34.0	29.1	7.4	2.4	31.7	42.4
1992: Jan	2,847.3	565.7	178.5	2,103.1	615.9	873.3	363.1	59.5	39.8	33.6	28.0	7.3	2.3	31.5	48.9
1992: Feb	2,847.8	570.4	178.6	2,098.8	611.5	876.9	363.5	57.1	40.8	33.5	28.2	6.8	2.2	31.6	46.7
1992: Mar	2,854.1	578.3	175.9	2,099.9	608.7	878.6	362.1	60.5	41.3	34.2	28.2	6.5	2.2	31.5	46.1
1992: Apr	2,866.3	589.8	176.1	2,100.3	605.7	880.8	361.0	65.0	40.6	34.1	27.9	6.7	2.1	31.5	45.0
1992: May	2,864.2	598.5	174.3	2,091.4	602.2	882.1	359.4	61.8	40.9	33.9	27.7	7.3	2.1	31.4	42.6
1992: June	2,869.0	607.3	172.7	2,089.0	598.5	881.0	360.0	64.1	40.4	34.2	27.4	8.1	2.1	31.6	41.8

¹ Data are prorated averages of Wednesday figures for domestically chartered banks and averages of month-end data for foreign-related institutions. Data beginning January 1984 are not strictly comparable with data for earlier periods, largely because beginning January 1984 certain obligations of States and political subdivisions are included in loans rather than in other securities.

² Excludes loans to commercial banks in the United States.
Source: Board of Governors of the Federal Reserve System.

SOURCES AND USES OF FUNDS, NONFARM NONFINANCIAL CORPORATE BUSINESS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Sources							Uses			Discrepancy (sources less uses)
	Total	Internal ¹	External					Total	Capital expendi- tures ³	Increase in financial assets	
			Total	Credit market funds			Other ²				
				Total	Securities and mortgages	Loans and short-term paper					
1982	313.5	247.4	66.1	50.7	-4.0	54.7	15.4	339.3	287.5	51.8	-25.8
1983	431.2	292.3	138.9	81.0	45.5	35.5	57.9	428.6	303.5	125.1	2.6
1984	491.4	336.4	155.0	92.5	-13.0	105.5	62.5	504.7	397.5	107.2	-13.3
1985	464.3	352.0	112.3	52.4	-4.6	57.0	59.9	451.7	368.9	82.8	12.7
1986	521.4	336.7	184.7	126.7	60.9	65.8	58.0	502.5	351.3	151.2	19.0
1987	544.9	376.0	168.9	63.0	27.6	35.4	106.0	476.8	365.1	111.7	68.1
1988	586.7	404.4	182.3	63.0	-12.9	75.9	119.2	560.4	396.6	163.8	26.3
1989	549.4	405.0	144.4	42.1	-41.7	83.8	102.3	526.8	422.9	103.9	22.6
1990	470.1	381.5	88.6	16.0	-13.9	29.9	72.6	489.8	403.3	86.5	-19.6
1991	459.9	392.4	67.5	25.0	90.7	-65.7	42.5	435.2	366.1	69.1	24.6
1989: III	473.0	410.5	62.5	6.6	-85.5	92.1	55.9	483.5	415.9	67.6	-10.5
1989: IV	556.1	403.7	152.4	38.9	20.7	18.2	113.5	551.1	430.7	120.4	4.9
1990: I	541.7	393.8	147.9	53.6	-14.0	67.6	94.3	507.7	402.4	105.3	34.0
1990: II	517.1	395.2	121.9	48.8	7.5	41.3	73.2	523.0	415.9	107.1	-5.8
1990: III	443.6	361.2	82.4	-1.9	-49.0	47.1	84.3	529.4	418.2	111.2	-85.7
1990: IV	378.2	375.9	2.3	-36.4	-4	-36.0	38.6	398.8	376.2	22.6	-20.6
1991: I	447.1	390.9	56.2	8.5	63.1	-54.6	47.7	387.3	346.0	41.3	59.8
1991: II	488.8	390.7	98.1	47.3	109.2	-61.9	50.8	458.2	350.8	107.4	30.6
1991: III	484.7	387.1	97.6	31.6	80.0	-48.4	66.0	493.1	380.8	112.3	-8.4
1991: IV	418.5	400.7	17.8	12.5	110.3	-97.8	5.2	402.2	386.7	15.5	16.3
1992: I ^p	535.4	415.1	120.3	102.5	119.8	-17.3	17.8	465.6	358.2	107.4	69.9

¹ Undistributed profits (after inventory valuation and capital consumption adjustments), capital consumption allowances, and foreign branch profits, dividends, and subsidiaries' earnings retained abroad.

² Consists of tax liabilities, trade debt, pension fund liabilities, and direct foreign investment in

the U.S.

³ Plant and equipment, residential structures, inventory investment, and mineral rights from U.S. Government.

Source: Board of Governors of the Federal Reserve System.

CONSUMER INSTALLMENT CREDIT

[Millions of dollars; seasonally adjusted]

Period	Installment credit outstanding (end of period)				Net change in installment credit outstanding ¹			
	Total	Automobile	Revolving	Other ²	Total	Automobile	Revolving	Other ²
1982: Dec.....	325,805	125,945	66,454	133,406	14,546	6,937	5,384	2,224
1983: Dec.....	368,966	143,560	79,088	146,318	43,161	17,615	12,634	12,912
1984: Dec.....	442,602	173,564	100,280	168,758	73,636	30,004	21,192	22,440
1985: Dec.....	517,659	210,238	121,758	185,664	75,057	36,674	21,478	16,906
1986: Dec.....	572,006	247,772	135,825	188,408	54,347	37,594	14,067	2,744
1987: Dec.....	608,675	266,295	153,064	189,316	36,669	18,523	17,239	908
1988: Dec ³	662,553	285,364	174,269	202,921	53,878	19,069	21,205	13,605
1989: Dec.....	716,825	292,002	199,308	225,515	(⁴)	(⁴)	(⁴)	(⁴)
1990: Dec.....	735,338	284,993	222,950	227,395	18,513	-7,009	23,642	1,880
1991: Dec.....	727,799	263,003	242,785	222,012	-7,539	-21,990	19,835	-5,383
1991: May.....	731,724	273,389	232,297	226,088	-1,503	-3,574	1,860	211
1991: June.....	730,109	270,789	233,399	225,922	-1,615	-2,600	1,102	-116
1991: July.....	728,823	268,897	234,654	225,273	-1,286	-1,892	1,255	-649
1991: Aug.....	727,311	266,620	236,294	224,396	-1,512	-2,277	1,640	-877
1991: Sept.....	727,449	264,621	238,987	223,842	138	-1,999	2,693	-554
1991: Oct.....	729,225	264,420	241,436	223,369	1,776	-201	2,449	-473
1991: Nov.....	727,960	262,383	242,573	223,004	-1,265	-2,037	1,137	-365
1991: Dec.....	727,799	263,003	242,785	222,012	-161	620	212	-992
1992: Jan.....	728,618	263,134	244,288	221,196	819	131	1,503	-816
1992: Feb.....	728,395	261,659	245,974	220,762	-223	-1,475	1,686	-434
1992: Mar.....	727,404	262,125	245,259	220,020	-990	466	-714	-742
1992: Apr ^r	723,821	260,376	245,905	217,541	-3,583	-1,749	646	-2,479
1992: May ^p	721,412	258,677	246,060	216,675	-2,409	-1,699	155	-865

¹ For year-end data, change from preceding year-end; for monthly data, change from preceding month.

² Outstanding loans for mobile homes are now included in "Other" credit and will no longer be available as a separate credit type.

³ Data newly available in January 1989 result in breaks in many series between December 1988

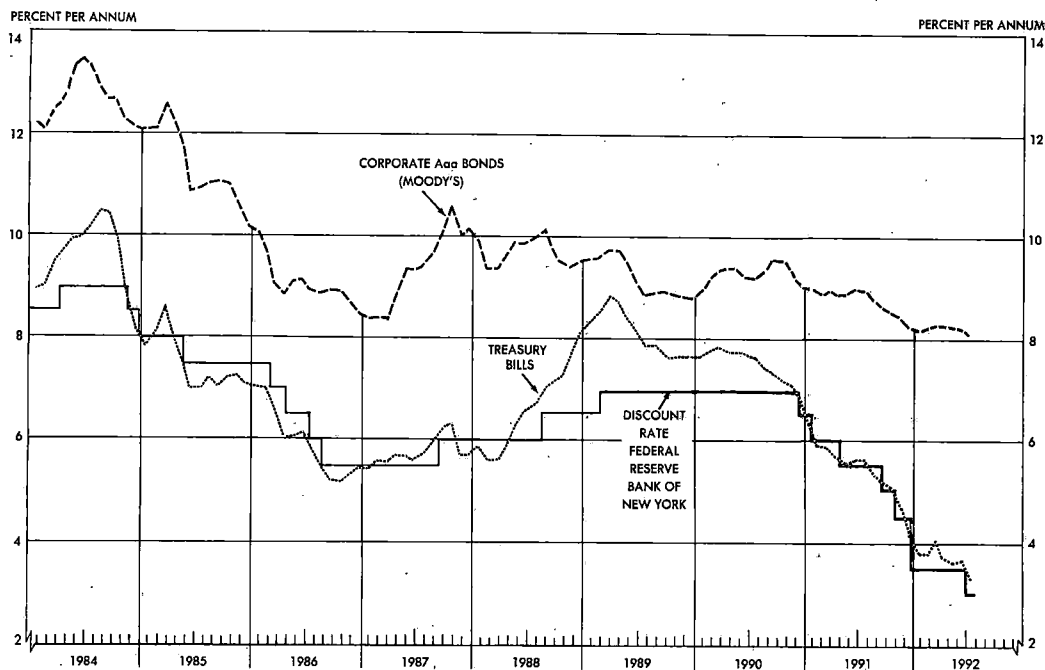
and subsequent months.

⁴ Because of breaks in series, net change not available.

Source: Board of Governors of the Federal Reserve System.

INTEREST RATES AND BOND YIELDS

Interest rates fell in July.



SOURCE: SEE TABLE BELOW

COUNCIL OF ECONOMIC ADVISERS

[Percent per annum]

Period	U.S. Treasury security yields			High-grade municipal bonds (Standard & Poor's) ³	Corporate Aaa bonds (Moody's)	Prime commercial paper, 6 months ¹	Discount rate (N.Y. F.R. Bank) ⁴	Prime rate charged by banks ⁴	New-home mortgage yields (FHFB) ⁵
	3-month bills (new issues) ¹	Constant maturities ²							
		3-year	10-year						
1981	14.029	14.44	13.91	11.23	14.17	14.76	13.42	18.87	14.70
1982	10.686	12.92	13.00	11.57	13.79	11.89	11.02	14.86	15.14
1983	8.63	10.45	11.10	9.47	12.04	8.89	8.50	10.79	12.57
1984	9.58	11.89	12.44	10.15	12.71	10.16	8.80	12.04	12.38
1985	7.48	9.64	10.62	9.18	11.37	8.01	7.69	9.93	11.55
1986	5.98	7.06	7.68	7.38	9.02	6.39	6.33	8.33	10.17
1987	5.82	7.68	8.39	7.73	9.38	6.85	5.66	8.21	9.31
1988	6.69	8.26	8.85	7.76	9.71	7.68	6.20	9.32	9.19
1989	8.12	8.55	8.49	7.24	9.26	8.80	6.93	10.87	10.13
1990	7.51	8.26	8.55	7.25	9.32	7.95	6.98	10.01	10.05
1991	5.42	6.82	7.86	6.89	8.77	5.85	5.45	8.46	9.32
1991: July	5.58	7.38	8.27	7.03	9.00	6.14	5.50-5.50	8.50-8.50	9.43
Aug	5.39	6.80	7.90	6.89	8.75	5.76	5.50-5.50	8.50-8.50	9.48
Sept	5.25	6.50	7.65	6.80	8.61	5.59	5.50-5.00	8.50-8.00	9.30
Oct	5.03	6.23	7.53	6.59	8.55	5.33	5.00-5.00	8.00-8.00	9.04
Nov	4.60	5.90	7.42	6.64	8.48	4.93	5.00-4.50	8.00-7.50	8.64
Dec	4.12	5.39	7.09	6.63	8.31	4.49	4.50-3.50	7.50-6.50	8.53
1992: Jan	3.84	5.40	7.03	6.41	8.20	4.06	3.50-3.50	6.50-6.50	8.49
Feb	3.84	5.72	7.34	6.67	8.29	4.13	3.50-3.50	6.50-6.50	8.65
Mar	4.05	6.18	7.54	6.69	8.35	4.38	3.50-3.50	6.50-6.50	8.51
Apr	3.81	5.93	7.48	6.64	8.33	4.13	3.50-3.50	6.50-6.50	8.58
May	3.66	5.81	7.39	6.57	8.28	3.97	3.50-3.50	6.50-6.50	8.59
June	3.70	5.60	7.26	6.50	8.22	3.99	3.50-3.50	6.50-6.50	8.43
July	3.28	4.91	6.84	6.12	8.07	3.53	3.50-3.00	6.50-6.00	.....
Week ended:									
1992: July 4	3.59	5.33	7.07	6.34	8.16	3.87	3.50-3.00	6.50-6.00	.....
11	3.23	4.99	6.90	6.15	8.08	3.55	3.00-3.00	6.00-6.00	.....
18	3.22	4.87	6.92	6.15	8.09	3.51	3.00-3.00	6.00-6.00	.....
25	3.16	4.80	6.82	6.08	8.06	3.49	3.00-3.00	6.00-6.00	.....
Aug 1	3.18	4.83	6.67	5.88	8.01	3.48	3.00-3.00	6.00-6.00	.....

¹ Bank-discount basis.

² Yields on the more actively traded issues adjusted to constant maturities by the Treasury Department.

³ Weekly data are Wednesday figures.

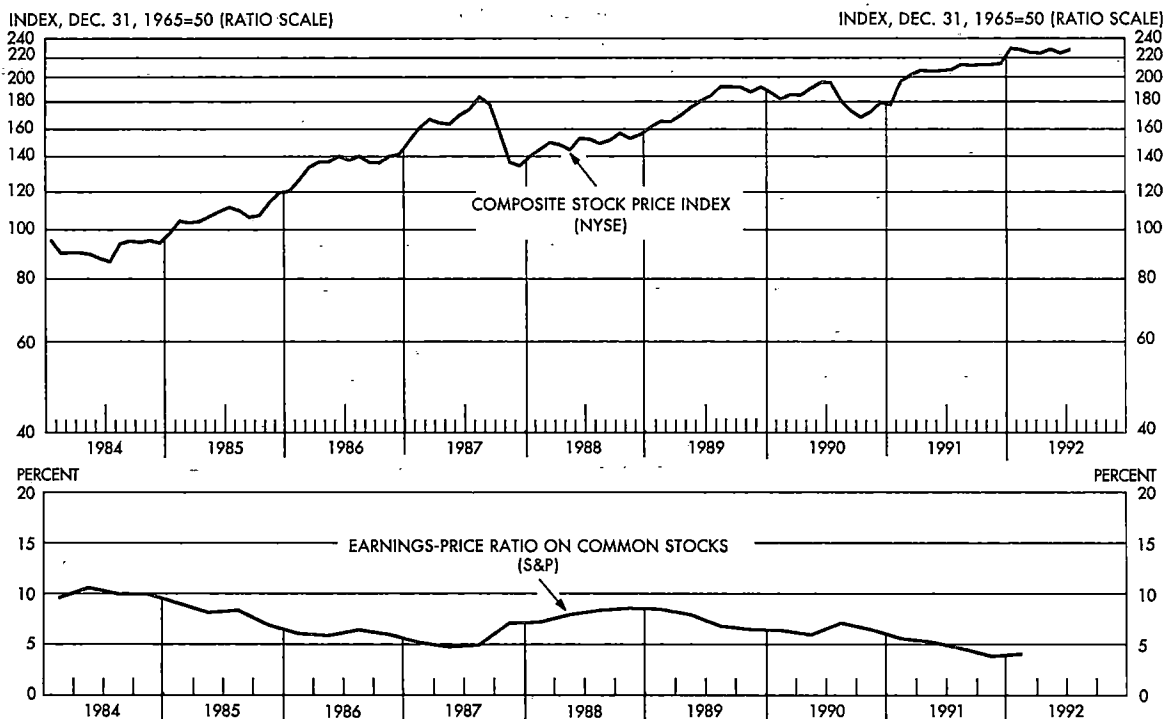
⁴ Average effective rate for year; opening and closing rate for month and week.

⁵ Effective rate (in the primary market) on conventional mortgages, reflecting fees and charges as well as contract rate and assumed, on the average, repayment at end of 10 years.

Sources: Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Housing Finance Board, Moody's Investors Service, and Standard & Poor's Corporation.

COMMON STOCK PRICES AND YIELDS

Stock prices rose in July.



SOURCES: NEW YORK STOCK EXCHANGE AND STANDARD & POOR'S CORPORATION

COUNCIL OF ECONOMIC ADVISERS

Period	Common stock prices ¹							Common stock yields (percent) ⁵	
	New York Stock Exchange indexes (Dec. 31, 1965=50) ²						Standard & Poor's composite index (1941-43=10) ⁴	Dividend-price ratio	Earnings-price ratio
	Composite	Industrial	Transportation	Utility	Finance	Dow-Jones industrial average ³			
1981.....	74.02	85.44	72.61	38.91	73.52	932.92	128.05	5.20	11.96
1982.....	68.93	78.18	60.41	39.75	71.99	884.36	119.71	5.81	11.60
1983.....	92.63	107.45	89.36	47.00	95.34	1,190.34	160.41	4.40	8.03
1984.....	92.46	108.01	85.63	46.44	89.28	1,178.48	160.46	4.64	10.02
1985.....	108.09	123.79	104.11	56.75	114.21	1,328.23	186.84	4.25	8.12
1986.....	136.00	155.85	119.87	71.36	147.20	1,792.76	236.34	3.49	6.09
1987.....	161.70	195.31	140.39	74.30	146.48	2,275.99	286.83	3.08	5.48
1988.....	149.91	180.95	134.12	71.77	127.26	2,060.82	265.79	3.64	8.01
1989.....	180.02	216.23	175.28	87.43	151.88	2,508.91	322.84	3.45	7.41
1990.....	183.46	225.78	158.62	90.60	133.26	2,678.94	334.59	3.61	6.47
1991.....	206.33	258.14	173.99	92.66	150.82	2,929.33	376.18	3.24	4.81
1991: July.....	208.29	262.48	177.15	90.05	151.60	2,978.19	380.23	3.20	.....
Aug.....	213.33	268.22	178.52	92.38	157.70	3,006.09	389.40	3.10	.....
Sept.....	212.55	266.21	177.99	93.72	157.69	3,010.35	387.20	3.15	4.59
Oct.....	213.10	265.68	187.31	95.25	158.94	3,019.74	386.88	3.14	.....
Nov.....	213.25	264.89	188.52	96.78	159.78	2,986.12	385.92	3.15	.....
Dec.....	214.26	266.01	185.47	98.08	159.96	2,958.64	388.51	3.11	3.83
1992: Jan.....	229.34	286.62	201.55	99.31	174.50	3,227.06	416.08	2.90	.....
Feb.....	228.12	286.09	205.53	96.18	174.05	3,257.27	412.56	2.94	.....
Mar.....	225.21	282.36	204.07	94.15	173.49	3,247.42	407.36	3.01	4.01
Apr.....	224.55	281.60	201.28	94.92	171.05	3,294.08	407.41	3.02	.....
May.....	228.55	285.17	207.88	98.24	175.89	3,376.79	414.81	2.99	.....
June.....	224.68	279.54	202.02	97.23	174.82	3,337.79	408.27	3.06	.....
July.....	228.17	281.90	198.36	101.18	180.96	3,329.41	415.05	3.00	.....
Week ended:									
1992: July 4.....	225.48	279.36	201.28	97.78	179.42	3,330.69	410.43	3.01	.....
11.....	226.70	279.92	198.65	100.13	180.87	3,316.46	412.43	3.03	.....
18.....	228.95	282.87	199.58	101.60	181.39	3,346.88	416.56	2.98	.....
25.....	226.85	280.06	194.78	101.22	179.87	3,292.95	412.42	3.03	.....
Aug 1.....	230.81	285.32	198.79	102.91	181.76	3,356.23	419.88	2.93	.....

¹ Average of daily closing prices.

² Includes all the stocks (more than 1,500) listed on the NYSE.

³ Includes 30 stocks.

⁴ Includes 500 stocks.

⁵ Standard & Poor's series. Dividend-price ratios based on Wednesday closing prices. Earnings-

price ratios based on prices at end of quarter.

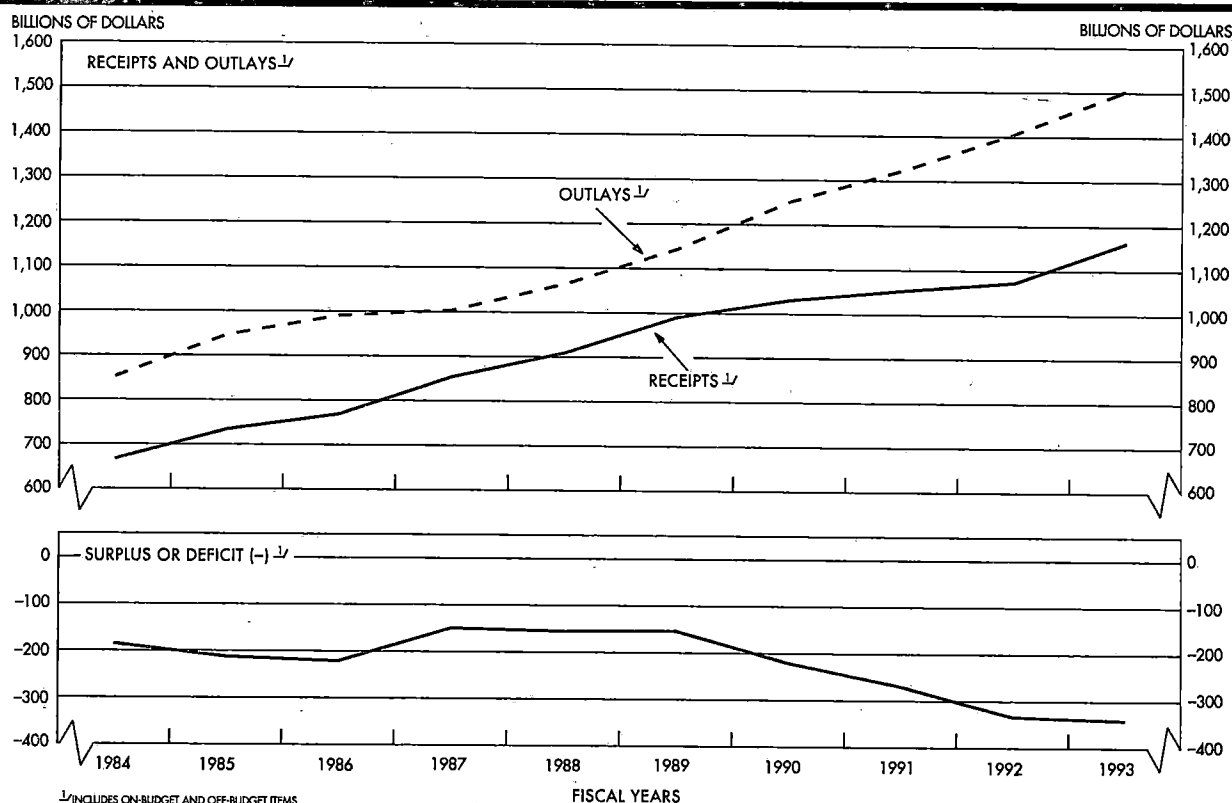
NOTE.—All data relate to stocks listed on the New York Stock Exchange (NYSE).

Sources: New York Stock Exchange, Dow-Jones & Company, Inc., and Standard & Poor's Corporation.

FEDERAL FINANCE

FEDERAL RECEIPTS, OUTLAYS, AND DEBT

In the first 9 months of fiscal 1992, there was a deficit of \$227.7 billion, compared with a deficit of \$178.1 billion a year earlier.



↓ INCLUDES ON-BUDGET AND OFF-BUDGET ITEMS.

SOURCES: DEPARTMENT OF THE TREASURY AND OFFICE OF MANAGEMENT AND BUDGET

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars]

Fiscal year or period	Total			On-budget			Off-budget			Gross Federal debt (end of period)	
	Receipts	Outlays	Surplus or deficit (-)	Receipts	Outlays	Surplus or deficit (-)	Receipts	Outlays	Surplus or deficit (-)	Total	Held by the public
1976.....	298.1	371.8	-73.7	231.7	302.2	-70.5	66.4	69.6	-3.2	629.0	477.4
1977.....	355.6	409.2	-53.7	278.7	328.5	-49.8	76.8	80.7	-3.9	706.4	549.1
1978.....	399.6	458.7	-59.2	314.2	369.1	-54.9	85.4	89.7	-4.3	776.6	607.1
1979.....	463.3	503.5	-40.2	365.3	403.5	-38.2	98.0	100.0	-2.0	828.9	639.8
1980.....	517.1	590.9	-73.8	403.9	476.6	-72.7	113.2	114.3	-1.1	908.5	709.3
1981.....	599.3	678.2	-79.0	469.1	543.1	-74.0	130.2	135.2	-5.0	994.3	784.8
1982.....	617.8	745.8	-128.0	474.3	594.4	-120.1	143.5	151.4	-7.9	1,136.8	919.2
1983.....	600.6	808.4	-207.8	453.2	661.3	-208.0	147.3	147.1	.2	1,371.2	1,131.0
1984.....	666.5	851.8	-185.4	500.4	686.0	-185.7	166.1	165.8	.3	1,564.1	1,300.0
1985.....	734.1	946.4	-212.3	547.9	769.6	-221.7	186.2	176.8	9.4	1,817.0	1,499.4
1986.....	769.1	990.3	-221.2	568.9	806.8	-238.0	200.2	183.5	16.7	2,120.1	1,736.2
1987.....	854.1	1,003.9	-149.8	640.7	810.1	-169.3	213.4	193.8	19.6	2,345.6	1,888.1
1988.....	909.0	1,064.1	-155.2	667.5	861.4	-194.0	241.5	202.7	38.8	2,600.8	2,050.3
1989.....	990.7	1,144.2	-153.5	727.0	933.3	-206.2	263.7	210.9	52.8	2,867.5	2,189.3
1990.....	1,031.3	1,251.8	-220.5	749.7	1,026.7	-277.1	281.7	225.1	56.6	3,206.3	2,410.4
1991 ¹	1,054.3	1,323.8	-269.5	760.4	1,082.1	-321.7	293.9	241.7	52.2	3,599.0	2,687.9
1992 (estimates) ¹	1,073.6	1,407.1	-333.5	772.7	1,155.0	-382.3	300.9	252.1	48.8	4,009.0	3,011.6
1993 (estimates) ¹	1,162.9	1,503.9	-341.0	838.9	1,238.7	-399.7	324.0	265.2	58.8	4,463.4	3,355.3
Cumulative total, first 9 months: ²											
Fiscal year 1991.....	789.9	968.0	-178.1	566.3	793.7	-227.4	223.6	174.4	49.3	3,487.1	2,591.9
Fiscal year 1992.....	815.6	1,043.3	-227.7	584.6	863.1	-278.5	231.0	180.2	50.8	3,918.8	2,923.2

¹ Estimates from *Mid-Session Review of the Budget*, Office of Management and Budget, July 24, 1992.

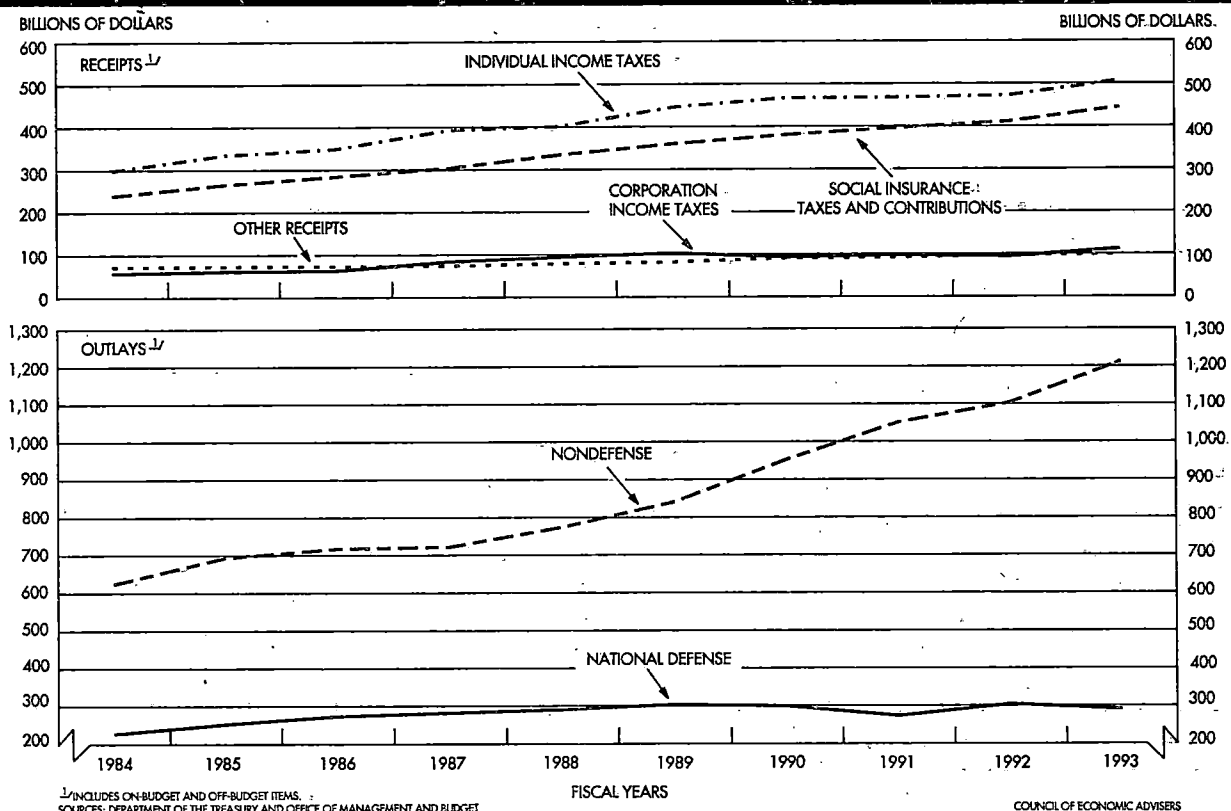
² Data from *Monthly Treasury Statement*.

NOTE.—Data (except as noted) are from *Budget of the United States Government, Fiscal Year 1993, Supplement*, issued February 18, 1992, and are on a cash basis.

Sources: Department of the Treasury and Office of Management and Budget.

FEDERAL RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION

In the first 9 months of fiscal 1992, receipts were \$25.7 billion higher than a year earlier and outlays were \$75.3 billion higher.



[Billions of dollars]

Fiscal year	On-budget and off-budget receipts					On-budget and off-budget outlays									
	Total	Individual income taxes	Corporation income taxes	Social insurance taxes and contributions	Other	Total	National defense		International affairs	Health	Medicare	Income security	Social security	Net interest	Other
							Total	Department of Defense, military							
1976	298.1	131.6	41.4	90.8	34.3	371.8	89.6	87.9	6.4	15.7	15.8	60.8	73.9	26.7	82.8
1977	355.6	157.6	54.9	106.5	36.6	409.2	97.2	95.1	6.4	17.3	19.3	61.0	85.1	29.9	93.0
1978	399.6	181.0	60.0	121.0	37.7	458.7	104.5	102.3	7.5	18.5	22.8	61.5	93.9	35.5	114.7
1979	463.3	217.8	65.7	138.9	40.8	503.5	116.3	113.6	7.5	20.5	26.5	66.4	104.1	42.6	119.6
1980	517.1	244.1	64.6	157.8	50.6	590.9	134.0	130.9	12.7	23.2	32.1	86.5	118.5	52.5	131.4
1981	599.3	285.9	61.1	182.7	69.5	678.2	157.5	153.9	13.1	26.9	39.1	99.7	139.6	68.8	133.5
1982	617.8	297.7	49.2	201.5	69.3	745.8	185.3	180.7	12.3	27.4	46.6	107.7	156.0	85.0	125.4
1983	600.6	288.9	37.0	209.0	65.6	808.4	209.9	204.4	11.8	28.6	52.6	122.6	170.7	89.8	122.3
1984	666.5	298.4	56.9	239.4	71.8	851.8	227.4	220.9	15.9	30.4	57.5	112.7	178.2	111.1	118.6
1985	734.1	334.5	61.3	265.2	73.0	946.4	252.7	245.2	16.2	33.5	65.8	128.2	188.6	129.5	131.8
1986	789.1	349.0	63.1	283.9	73.1	990.3	273.4	265.5	14.2	35.9	70.2	119.8	198.8	136.0	142.1
1987	854.1	392.6	83.9	303.3	74.3	1,003.9	282.0	274.0	11.6	40.0	75.1	123.3	207.4	138.7	125.9
1988	909.0	401.2	94.5	334.3	78.9	1,064.1	290.4	281.9	10.5	44.5	78.9	129.3	219.3	151.8	139.4
1989	990.7	445.7	103.3	359.4	82.3	1,144.2	303.6	294.9	9.6	48.4	85.0	136.0	232.5	169.3	159.8
1990	1,031.3	466.9	93.5	380.0	90.9	1,251.8	299.3	289.8	13.8	57.7	98.1	147.3	248.6	184.2	202.7
1991 ¹	1,054.3	467.8	98.1	396.0	92.3	1,323.8	273.3	262.4	15.9	71.2	104.5	170.8	269.0	194.5	224.6
1992 (estimates) ¹	1,073.6	472.1	94.2	410.4	96.9	1,407.1	304.2	291.5	17.7	93.0	120.1	199.9	286.9	199.1	186.2
1993 (estimates) ¹	1,162.9	507.0	112.2	444.5	99.2	1,503.9	291.2	278.2	18.2	106.3	132.5	202.3	303.4	210.3	239.7
Cumulative total, first 9 months: ²															
Fiscal year 1991	789.9	346.9	76.4	300.1	66.5	968.0	199.1	190.8	13.4	51.5	76.7	129.2	201.2	145.2	151.7
Fiscal year 1992	815.6	349.7	76.7	315.5	73.7	1,043.3	220.9	212.0	13.5	65.5	87.9	151.0	215.1	150.3	139.2

¹ Estimates from *Mid-Session Review of the Budget*, Office of Management and Budget, July 24, 1992.

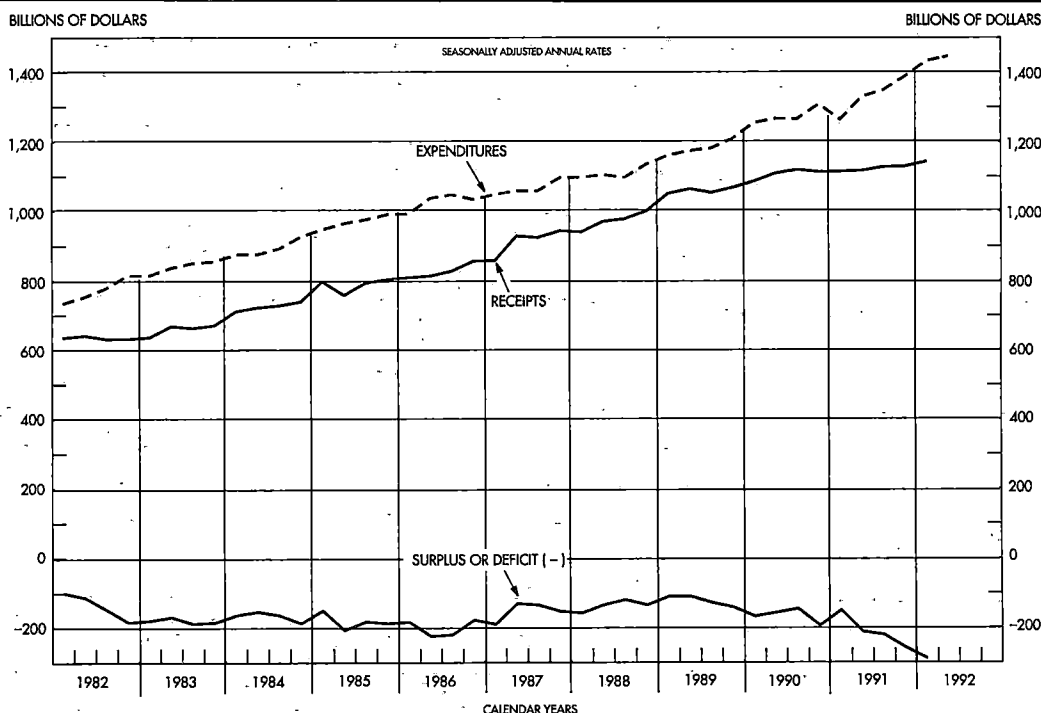
² Data from *Monthly Treasury Statement*.

NOTE.—Data (except as noted) are from *Budget of the United States Government, Fiscal Year 1993, Supplement*, issued February 18, 1992, and are on a cash basis.

Sources: Department of the Treasury and Office of Management and Budget.

FEDERAL SECTOR, NATIONAL INCOME ACCOUNTS BASIS

In the second quarter of 1992, according to advance estimates, Federal expenditures rose \$13.7 billion (annual rate); receipts data are incomplete. (Series revised.)



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Federal Government receipts					Federal Government expenditures							Surplus or deficit (-), national income and product accounts
	Total	Personal tax and nontax receipts	Corporate profits tax accruals	Indirect business tax and nontax accruals	Contributions for social insurance	Total	Purchases	Transfer payments	Grants-in-aid to State and local governments	Net interest paid	Subsidies, less current surplus of Government enterprises	Less: Wage accruals less disbursements	
Fiscal year:													
1988	955.1	403.8	107.6	59.6	384.1	1,098.5	386.3	430.9	108.4	143.8	28.9	-0.1	-143.3
1989	1,042.4	449.3	118.9	61.7	412.5	1,163.0	398.3	460.5	116.0	160.3	28.0	.0	-120.7
1990	1,096.1	479.5	113.9	64.4	438.5	1,249.1	418.1	504.1	128.4	175.1	23.4	.0	-153.0
1991	1,118.2	475.9	104.6	75.1	462.6	1,312.6	446.7	511.9	146.8	183.1	24.2	.0	-194.4
Calendar year:													
1988	972.3	410.1	111.0	60.9	390.4	1,109.0	387.0	436.3	111.3	146.0	28.4	.0	-136.6
1989	1,059.3	461.9	117.1	61.9	418.5	1,181.6	401.6	471.5	118.2	164.8	25.5	.0	-122.3
1990	1,107.4	482.6	113.9	66.0	444.9	1,273.6	426.4	513.3	132.3	176.6	25.1	.1	-166.2
1991	1,122.2	473.4	102.5	78.2	468.2	1,332.7	447.3	521.9	153.3	186.9	23.1	-.1	-210.4
1982: IV	632.3	301.6	45.5	49.2	235.9	815.7	281.4	346.0	84.3	86.8	17.3	.0	-183.4
1983: IV	671.1	290.5	65.4	55.4	259.8	855.7	289.7	351.1	86.9	99.2	28.8	.0	-184.6
1984: IV	739.8	323.5	67.0	58.2	291.1	926.6	324.7	360.1	97.7	122.3	22.2	.6	-186.8
1985: IV	808.6	351.8	77.0	56.8	318.0	990.8	356.9	383.8	104.5	129.2	16.4	.0	-187.2
1986: IV	856.8	371.7	91.4	54.8	338.8	1,034.3	373.1	404.2	103.8	131.1	22.1	.0	-177.5
1987: IV	943.5	414.8	109.7	59.5	359.4	1,096.3	392.5	419.7	102.9	143.1	37.8	-.2	-152.7
1988: IV	1,000.6	420.0	118.5	61.4	400.7	1,135.5	392.0	444.5	113.0	151.2	34.9	.0	-134.9
1989: IV	1,068.3	470.1	111.3	62.2	424.7	1,209.8	405.1	488.8	121.9	168.9	25.0	.0	-141.5
1990: I	1,086.7	474.0	110.3	64.8	437.6	1,254.5	420.3	504.7	128.1	171.4	29.9	.0	-167.8
1990: II	1,109.6	487.2	114.6	65.2	442.7	1,266.5	424.4	509.8	132.2	176.9	23.2	.0	-156.9
1990: III	1,119.9	486.6	119.2	65.4	448.8	1,265.5	422.6	513.1	131.2	183.3	15.3	.0	-145.6
1990: IV	1,113.3	482.5	111.7	68.5	450.6	1,307.9	438.3	525.5	137.6	174.8	32.0	.2	-194.6
1991: I	1,114.6	474.7	100.3	77.3	462.2	1,264.4	451.3	461.6	144.3	182.7	24.8	.2	-149.9
1991: II	1,117.3	473.1	101.6	76.3	466.3	1,329.4	449.9	514.8	151.9	188.1	24.4	-.4	-212.2
1991: III	1,127.7	473.4	104.9	78.3	471.1	1,348.7	447.2	545.5	153.4	186.8	15.7	.0	-221.0
1991: IV	1,129.4	472.2	103.3	80.8	473.2	1,388.1	440.8	565.9	163.6	190.1	27.7	.0	-258.7
1992: I	1,143.3	468.4	112.2	79.2	483.5	1,432.5	445.0	609.8	165.1	186.8	25.7	.0	-289.2
1992: II ^P	462.2			79.8	487.5	1,446.2	446.8	615.4	169.9	187.1	26.9	.0	.....

NOTE.—See Note, p. 1.

Source: Department of Commerce, Bureau of Economic Analysis.

INTERNATIONAL STATISTICS

INDUSTRIAL PRODUCTION AND CONSUMER PRICES—MAJOR INDUSTRIAL COUNTRIES

Period	Industrial production (1987=100; seasonally adjusted)							Consumer prices (1982-84=100; NSA)						
	United States	Canada	Japan	France	Germany	Italy	United Kingdom	United States ¹	Canada	Japan	France	Germany	Italy	United Kingdom
1982	81.9	76.5	82.9	97.3	90.3	91.7	86.4	96.5	94.9	98.0	91.7	97.0	87.7	95.4
1983	84.9	81.5	85.5	96.5	90.9	88.9	89.6	99.6	100.4	99.9	100.3	100.3	100.8	99.8
1984	92.8	91.4	93.4	97.1	93.5	91.8	89.7	103.9	104.8	102.1	108.0	102.7	111.5	104.8
1985	94.4	96.5	96.8	97.2	97.7	92.9	94.6	107.6	108.9	104.1	114.3	104.8	121.1	111.1
1986	95.3	95.4	96.6	98.0	99.6	96.2	96.9	109.6	113.4	104.8	117.2	104.7	128.5	114.9
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	118.6	118.4	104.9	121.1	104.9	134.4	119.7
1988	105.4	105.5	109.2	104.6	103.9	105.9	103.6	118.3	123.2	105.7	124.4	106.3	141.1	125.6
1989	108.1	105.3	115.9	108.8	108.8	109.2	104.0	124.0	129.3	108.0	128.9	109.2	150.4	135.4
1990	109.2	100.8	121.4	110.9	114.5	109.4	103.4	130.7	135.5	111.4	133.2	112.1	159.6	148.2
1991 ^P	107.1	96.5	124.1	111.2	118.0	107.1	100.3	136.2	143.1	115.0	137.2	116.0	169.7	156.9
1991: Apr	105.5	*96.1	123.3	109.8	117.8	103.5	98.7	135.2	142.3	114.7	136.3	114.7	168.0	156.4
May	106.4	*96.9	126.0	109.6	116.9	105.3	98.5	135.6	143.0	115.3	136.6	115.2	170.2	156.9
June	107.3	*97.2	122.8	109.7	121.6	110.6	101.5	136.0	143.7	114.8	136.9	115.8	169.6	157.6
July	108.1	97.4	126.6	110.9	119.5	106.5	101.4	136.2	143.8	114.7	137.4	116.8	171.4	157.2
Aug	108.0	*97.0	122.8	110.9	117.3	104.1	99.8	136.6	143.9	114.9	137.7	116.8	170.3	157.6
Sept	108.4	97.7	123.7	109.6	117.5	107.9	100.2	137.2	143.7	115.1	138.0	117.0	171.0	158.1
Oct	108.4	*97.0	123.9	111.1	117.5	105.8	100.6	137.4	143.4	116.4	138.6	117.4	172.3	158.7
Nov	108.1	96.7	123.8	110.3	117.9	111.6	*100.4	137.8	144.0	116.6	138.9	117.9	173.5	159.3
Dec	107.4	95.3	122.0	*109.2	113.4	104.7	*100.1	137.9	143.4	116.0	139.1	118.0	174.0	159.4
1992: Jan	106.6	*95.4	121.5	*111.0	119.2	108.5	99.1	138.1	144.0	115.8	139.4	118.5	175.4	159.3
Feb	107.2	*95.8	120.6	*110.1	120.3	111.0	100.3	138.6	144.1	115.7	139.8	119.2	175.9	160.1
Mar	*107.6	*96.3	117.7	109.8	118.5	110.7	*99.6	139.3	144.6	116.3	140.2	119.7	176.6	160.6
Apr	108.1	96.7	117.6	*111.3	*117.6	104.4	*99.9	139.5	144.6	117.5	140.5	120.0	177.3	163.1
May	*108.6		115.7	109.6	118.7		99.0	139.7	144.9	117.6	140.9	120.5	178.3	163.7
June ^P	108.2							140.2	145.2		141.0		178.9	163.7

¹ Data relate to all urban consumers.

Source: National sources as reported by Department of Commerce (Bureau of Economic Analysis and International Trade Administration, Trade Information and Analysis).

U.S. MERCHANDISE EXPORTS AND IMPORTS

[Billions of dollars; monthly data seasonally adjusted]

Period	Merchandise exports (f.a.s. value) ¹							General merchandise imports (customs value) ³							Trade balance	
	Total ²	Principal end-use commodity category						Total	Principal end-use commodity category						General merchandise imports (c.i.f. value)	Exports (f.a.s.) less imports (customs value)
		Foods, feeds, and beverages	Industrial supplies and materials	Capital goods except automotive	Automotive vehicles, parts, and engines	Consumer goods (non-food) except automotive	Other ²		Foods, feeds, and beverages	Industrial supplies and materials	Capital goods except automotive	Automotive vehicles, parts, and engines	Consumer goods (non-food) except automotive	Other		
1982	216.4	31.3	61.7	72.7	15.7	14.3	20.7	244.0	17.1	112.0	35.4	33.3	39.7	6.5	254.9	-27.5
1983	205.6	30.9	56.7	67.2	16.8	13.4	20.5	258.0	18.2	107.0	40.9	40.8	44.9	6.3	269.9	-52.4
1984	224.0	31.5	61.7	72.0	20.6	13.3	24.0	330.7	21.0	123.7	59.8	53.5	60.0	7.8	346.4	-122.4
1985	218.8	24.0	58.5	73.9	22.9	12.6	27.3	336.5	21.9	113.9	65.1	66.8	68.3	9.4	352.5	-117.7
1986	227.2	22.3	57.3	75.8	21.7	14.2	35.9	365.4	24.4	101.3	71.8	78.2	79.4	10.4	382.3	-138.3
1987	254.1	24.3	66.7	86.2	24.6	17.7	34.6	406.2	24.8	111.0	84.5	85.2	88.7	12.1	424.4	-152.1
1988	322.4	32.3	85.1	109.2	29.3	23.1	43.4	441.0	24.8	118.3	101.4	87.7	95.9	12.8	459.5	-118.5
1989	363.8	37.2	99.3	138.8	34.8	36.4	17.2	473.2	25.1	132.3	113.3	86.1	102.9	13.6	493.2	-109.4
1990	393.6	35.1	104.4	152.7	37.4	43.3	20.7	495.3	26.6	143.2	116.4	87.3	105.7	16.1	517.0	-101.7
1991	421.7	35.7	109.7	166.7	40.0	45.9	23.7	487.1	26.5	131.0	120.7	84.9	108.0	15.9	508.4	-65.4
1991: May	35.0	2.9	9.4	13.7	3.4	3.7	2.0	40.0	2.3	11.3	9.9	6.6	8.5	1.5	41.8	-5.0
June	34.7	2.7	8.7	14.3	3.5	3.7	1.9	39.4	2.3	10.6	10.0	6.6	8.4	1.5	41.1	-4.7
July	35.2	3.1	9.1	13.7	3.6	3.7	2.0	40.8	2.2	10.7	10.2	7.4	9.1	1.3	42.6	-5.6
Aug	34.5	3.0	9.1	13.4	3.3	3.7	1.9	41.1	2.1	10.9	10.0	7.9	8.9	1.3	42.8	-6.6
Sept	35.3	3.1	8.6	14.4	3.5	3.8	1.9	41.8	2.2	11.1	10.2	7.4	9.4	1.3	43.6	-6.5
Oct	36.8	3.2	9.3	14.4	3.7	4.1	2.1	42.7	2.1	11.1	10.3	7.7	10.0	1.4	44.5	-5.9
Nov	37.3	3.2	8.9	15.4	3.6	4.1	2.1	41.4	2.2	10.8	9.9	7.2	9.8	1.4	43.1	-4.1
Dec	36.1	3.3	8.9	14.3	3.3	3.8	2.3	41.7	2.3	10.8	10.3	7.2	9.8	1.3	43.4	-5.6
1992: Jan	35.5	3.1	9.3	13.9	3.2	3.9	2.0	41.3	2.3	10.6	10.3	7.3	9.5	1.3	43.0	-5.8
Feb	37.7	3.6	8.9	15.3	3.6	4.1	2.1	40.9	2.2	10.3	10.3	7.1	9.6	1.5	42.6	-3.3
Mar	37.1	3.3	8.8	14.9	3.9	4.0	2.3	42.7	2.3	10.6	10.7	7.5	9.9	1.6	44.4	-5.6
Apr	36.4	3.5	8.8	14.3	4.0	3.9	2.0	43.5	2.4	11.2	10.8	7.7	9.8	1.4	45.3	-7.1
May	35.5	2.9	8.9	13.8	3.8	4.0	2.1	42.9	2.3	11.3	10.8	7.4	9.8	1.3	44.6	-7.4

¹ Includes Department of Defense Military Assistance Program grant-aid shipments.

² Includes undocumented exports to Canada through 1988.

³ Total arrivals of imported goods other than intransit shipments.

⁴ Total includes revisions not reflected in detail.

⁵ Total exports are on a revised statistical month basis; end-use categories are on a statistical

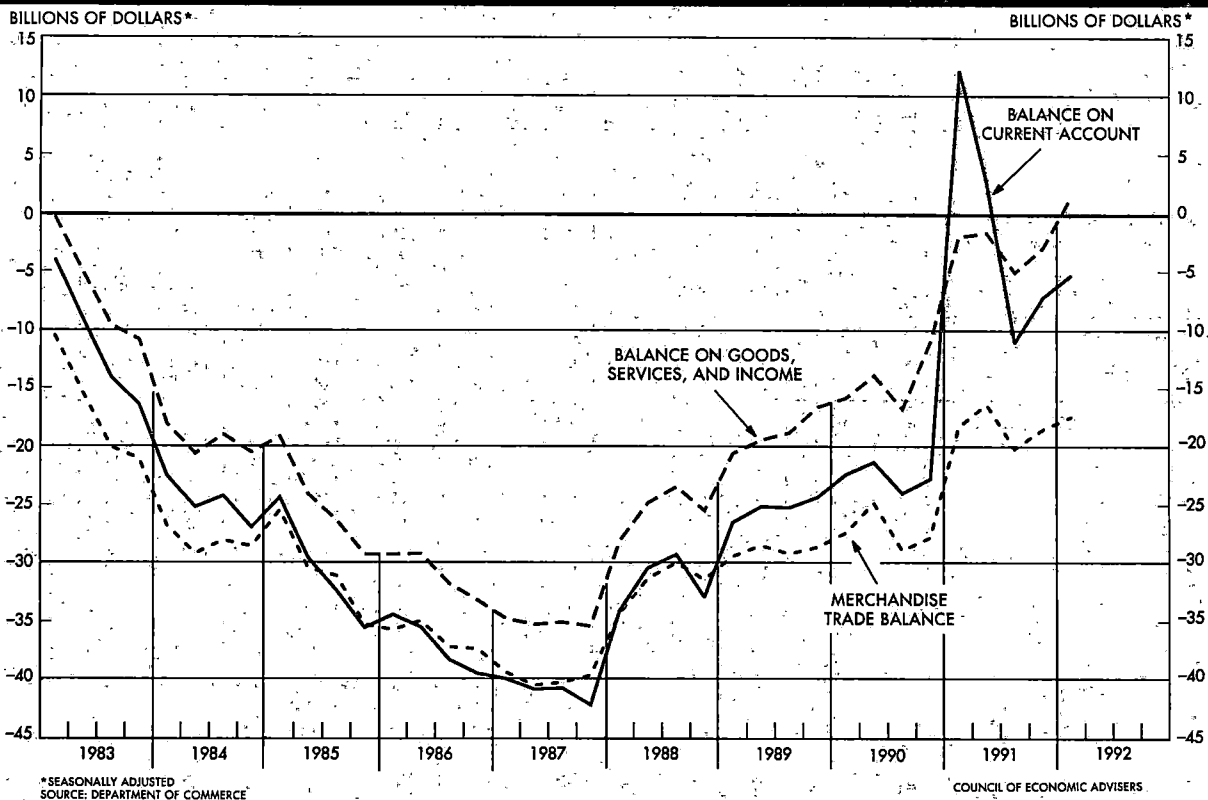
month basis.

NOTE.—Data shown include trade of the U.S. Virgin Islands.

Source: Department of Commerce, Bureau of the Census.

U.S. INTERNATIONAL TRANSACTIONS

The current account deficit fell to \$5.3 billion in the first quarter of 1992 from \$7.2 billion in the fourth quarter of 1991.



[Millions of dollars; quarterly data seasonally adjusted, except as noted. Credits (+), debits (-)]

Period	Merchandise ^{1 2}			Services			Investment income ⁵			Balance on goods, services, and income	Unilateral transfers, net ⁴	Balance on current account
	Exports	Imports	Net balance	Net military transactions ^{3 4}	Net travel and transportation receipts	Other services, net ⁵	Receipts on U.S. assets abroad	Payments on foreign assets in U.S. ³	Net			
1981 ^r	237,044	-265,067	-28,023	-844	144	12,552	86,529	-53,626	32,903	16,732	-11,702	5,030
1982 ^r	211,157	-247,642	-36,485	112	-992	13,209	86,200	-56,412	29,788	5,632	-17,075	-11,443
1983 ^r	201,799	-268,901	-67,102	-563	-4,227	14,095	85,614	-53,700	31,915	-25,882	-17,741	-43,623
1984 ^r	219,926	-332,418	-112,492	-2,547	-8,293	14,277	100,415	-69,572	30,843	-78,212	-20,612	-98,824
1985 ^r	215,915	-338,088	-122,173	-4,390	-9,709	14,266	91,110	-67,875	23,235	-98,771	-22,950	-121,721
1986 ^r	223,344	-368,425	-145,081	-5,181	-7,324	18,855	88,998	-73,620	15,378	-123,354	-24,176	-147,529
1987 ^r	250,208	-409,765	-159,557	-3,812	-6,398	18,400	96,574	-85,629	10,945	-140,421	-23,052	-163,474
1988 ^r	320,230	-447,189	-126,959	-6,354	-1,370	20,430	119,456	-106,991	12,466	-101,787	-24,869	-126,656
1989 ^r	361,697	-477,365	-115,668	-6,838	5,851	26,752	140,692	-126,326	14,366	-75,537	-25,606	-101,143
1990 ^r	388,705	-497,558	-108,853	-7,818	10,142	29,730	143,547	-124,261	19,287	-57,511	-32,916	-90,428
1991.....	415,962	-489,398	-73,436	-5,524	17,118	33,701	125,315	-108,886	16,429	-11,710	8,028	-3,682
1990: I ^r	94,981	-122,360	-27,379	-1,873	2,093	6,984	35,004	-30,676	4,328	-15,847	-6,538	-22,385
II ^r	96,654	-121,461	-24,807	-1,627	2,073	7,237	34,586	-31,386	3,200	-13,924	-7,401	-21,325
III ^r	96,544	-125,434	-28,890	-1,692	2,120	7,461	35,137	-30,913	4,224	-16,777	-7,201	-23,978
IV ^r	100,526	-128,303	-27,777	-2,627	3,855	8,051	38,821	-31,289	7,532	-10,966	-11,778	-22,744
1991: I.....	100,636	-118,962	-18,326	-2,564	3,755	8,164	35,498	-28,533	6,965	-2,006	14,199	12,193
II.....	103,324	-119,721	-16,397	-1,427	3,929	8,280	31,215	-27,284	3,931	-1,684	4,115	2,431
III.....	104,151	-124,325	-20,174	-994	4,358	8,660	29,904	-26,828	3,076	-5,075	-6,012	-11,087
IV.....	107,851	-126,390	-18,539	-539	5,080	8,596	28,698	-26,240	2,458	-2,945	-4,273	-7,218
1992: I ^r	107,825	-125,293	-17,468	-228	4,499	9,928	28,891	-24,181	4,710	1,441	-6,744	-5,303

¹ Excludes military.

² Adjusted from Census data for differences in timing and coverage.

³ Quarterly data are not seasonally adjusted.

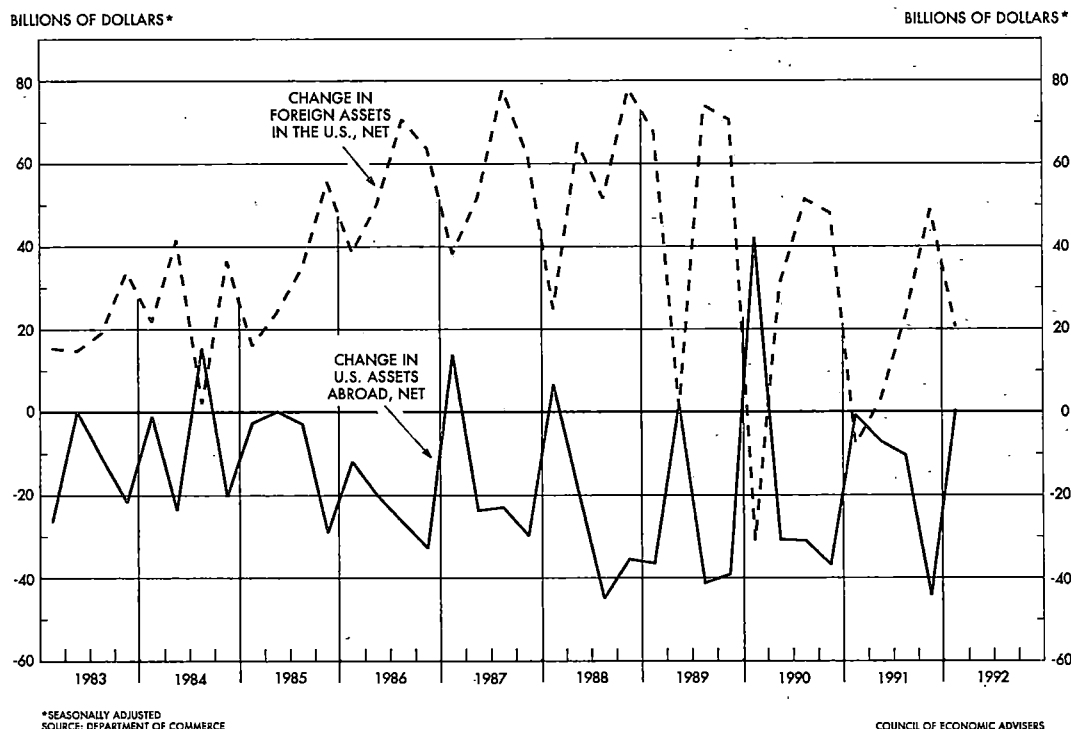
⁴ Includes transfers of goods and services under U.S. military grant programs.

⁵ Fees and royalties from U.S. direct investments abroad or from foreign direct investments in the United States are excluded from investment income and included in other services, net.

See p. 37 for continuation of table.

U.S. INTERNATIONAL TRANSACTIONS—Continued

In the capital accounts, U.S. claims on foreigners reported by U.S. banks decreased \$21.7 billion in the first quarter of 1992, in contrast to an increase of \$23.2 billion in the fourth quarter of 1991. U.S. liabilities to private foreigners reported by U.S. banks, excluding Treasury securities, decreased \$4.8 billion in the first quarter, compared to an increase of \$23.5 billion in the fourth quarter.



[Millions of dollars; quarterly data seasonally adjusted, except as noted]

Period	U.S. assets abroad, net [increase/capital outflow (—)]				Foreign assets in the U.S., net [increase/capital inflow (+)] ³			Allocations of special drawing rights (SDRs)	Statistical discrepancy		U.S. official reserve assets, net ⁶ (unadjusted, end of period)
	Total	U.S. official reserve assets ^{3, 6}	Other U.S. Government assets	U.S. private assets	Total	Foreign official assets	Other foreign assets		Total (sum of the items with sign reversed)	Of which: Seasonal adjustment discrepancy	
1981 ^r	-114,147	-5,175	-5,097	-103,875	83,032	4,960	78,072	1,093	24,992	.....	30,074
1982 ^r	-122,335	-4,965	-6,131	-111,239	92,418	3,593	88,826	.....	41,359	.....	33,958
1983 ^r	-58,856	-1,196	-5,006	-52,654	83,380	5,845	77,534	.....	19,099	.....	33,747
1984 ^r	-29,224	-3,131	-5,489	-20,605	102,010	3,140	98,870	.....	26,038	.....	34,934
1985 ^r	-34,069	-3,858	-2,821	-27,391	130,966	-1,119	132,084	.....	24,825	.....	43,186
1986 ^r	-91,069	312	-2,022	-89,360	223,191	35,648	187,543	.....	15,407	.....	48,511
1987 ^r	-62,402	9,149	1,006	-72,556	229,972	45,387	184,585	.....	-4,096	.....	45,798
1988 ^r	-92,708	-3,912	2,967	-91,762	219,489	39,758	179,731	.....	-126	.....	47,802
1989 ^r	-114,944	-25,293	1,271	-90,922	213,693	8,489	205,204	.....	2,394	.....	74,609
1990 ^r	-56,321	-2,158	2,304	-56,467	99,379	33,908	65,471	.....	47,370	.....	83,316
1991 ^r	-62,220	5,768	3,397	-71,379	66,980	18,407	48,573	.....	-1,078	.....	77,719
1990: I ^r	42,141	-3,177	-743	46,061	-30,965	-6,450	-24,515	.....	11,209	4,489	76,303
II ^r	-30,682	371	-794	-30,259	30,853	6,134	24,719	.....	21,154	518	77,298
III ^r	-30,964	1,739	-337	-32,366	51,386	14,097	37,289	.....	3,556	-5,605	80,024
IV ^r	-36,816	-1,091	4,179	-39,903	48,108	20,127	27,981	.....	11,452	600	83,316
1991: I ^r	-640	-353	1,073	-1,360	-7,840	5,650	-13,490	.....	-3,713	4,636	78,002
II ^r	-7,050	1,014	-420	-7,644	2,959	-4,178	7,137	.....	1,660	883	74,940
III ^r	-10,368	3,877	3,180	-17,426	22,933	4,115	18,818	.....	-1,478	-6,137	74,731
IV ^r	-44,158	1,225	-437	-44,947	48,929	12,819	36,110	.....	2,447	613	77,719
1992: I ^p	555	-1,057	-112	1,724	20,474	20,747	-273	.....	-15,726	3,967	74,657

³ Consists of gold, special drawing rights (SDRs), foreign currencies, and the U.S. reserve position in the IMF.

NOTE.—All data on pp. 36 and 37 reflect revisions as shown in the *Survey of Current Business*.

June 1992.

Sources: Department of Commerce (Bureau of Economic Analysis) and Department of the Treasury.

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General Notes

Detail in these tables may not add to totals because of rounding.
Unless otherwise noted, all dollar figures are in current dollars.

Symbols used:

^p Preliminary.

^r Revised.

^c Corrected.

... Not available (also, not applicable).

NSA not seasonally adjusted.

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WHITE HOUSE STAFFING MEMORANDUM

DATE: 6/26/92 ACTION/CONCURRENCE/COMMENT DUE BY: -----

CEA NUMBERS -- MAY PERSONAL INCOME AND OUTLAYS, COMMERCE
DEPARTMENT RELEASE

SUBJECT: _____

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☐	PORTER	☐	☒
BROMLEY	☐	☐	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒	_____	☐	☐
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
Assistant to the President
and Staff Secretary
Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 26, 1992

02 JUN 26 10:08

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *MJB*

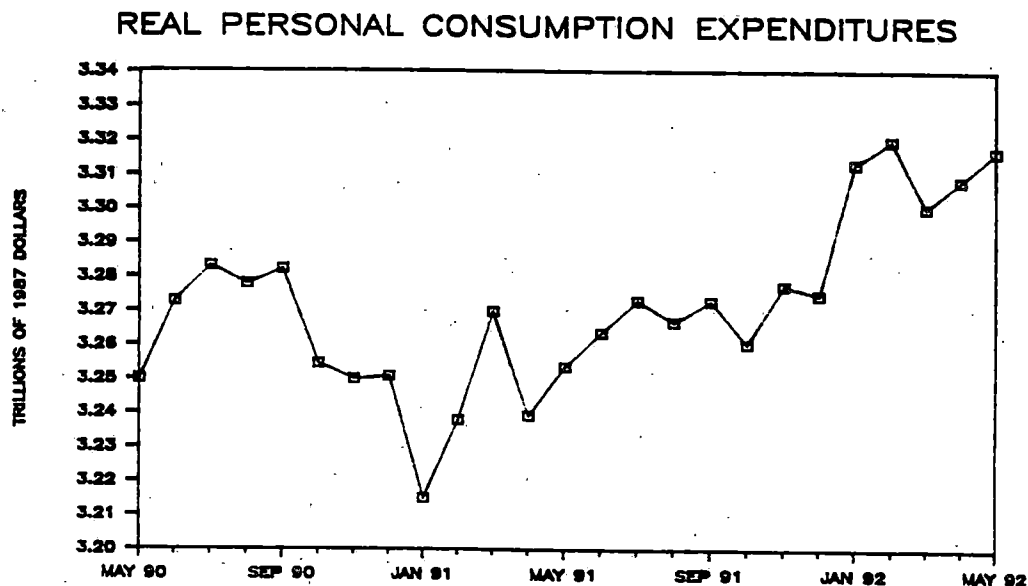
SUBJECT: May Personal Income and Outlays, Commerce
Department Release, This Morning, 10:00 a.m.

Personal income rose 0.3 percent in May, following a 0.1 percent increase in April. Private analysts had expected a 0.4 percent increase in May.

Real disposable personal income--income adjusted for inflation and taxes--rose 0.1 percent in May, following a 0.2 percent decline in April and 0.6 percent gains in March and February.

Consumer spending adjusted for inflation rose 0.3 percent in May, following a 0.2 percent rise in April. About three-quarters of the increase in spending in May was accounted for by higher outlays for motor vehicles and parts. There was little change, on balance, in spending for other goods, and there was a small increase in outlays for services.

The graph below shows that the increases in real personal consumption expenditures the past 2 months did not offset the large decline in March. The average level of consumer spending in April and May was only marginally higher than the average in the first quarter of 1992.



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 22--26

June 26, 1992

Today the Commerce Department reported that personal income rose 0.3 percent in May, following a 0.1 percent increase in April. Private analysts had expected a 0.4 percent increase in May. Real personal consumption expenditures rose 0.3 percent in May, following a 0.2 percent rise in April.

Yesterday the Commerce Department released the final estimate for real gross domestic product (GDP) for the first quarter of 1992, which indicated that real GDP grew at a 2.7 percent annual rate. Private analysts had expected a 2.4 percent (annual rate) increase--the same as the growth rate reported in last month's preliminary estimate.

On Wednesday, the Department of Commerce reported that new orders for manufactured durable goods fell 2.4 percent in May, after increasing 1.9 percent in April. Private analysts had expected an increase of 0.9 percent. Shipments of durable goods decreased 1.0 percent in May, after remaining flat in April.

DATA RELEASED THIS WEEK:

Personal income rose 0.3 percent in May, following a 0.1 percent increase in April. Consumer spending adjusted for inflation rose 0.3 percent in May, following a 0.2 percent rise in April. The average level of consumer spending in April and May was only marginally higher, however, than the average in the first quarter of 1992. **(Embargoed until 10:00 a.m., 6-26-92)**

Real GDP rose 2.7 percent at an annual rate in the first quarter of 1992, according to the final estimate by the Department of Commerce. The final estimate is revised upward from the 2.4 percent increase reported last month. Private analysts had expected no revision. Inflation, as measured by the GDP fixed-weight price index, was 3.3 percent at an annual rate, 0.1 percentage point less than reported in the preliminary estimate.

New orders for durable goods fell 2.4 percent in May after rising 1.9 percent in April. The decrease in May can be accounted for by declines in orders for aircraft and parts and in defense capital goods. Excluding these items, orders rose 0.7 percent. Shipments of durable goods fell 1.0 percent in May, after remaining flat in April.

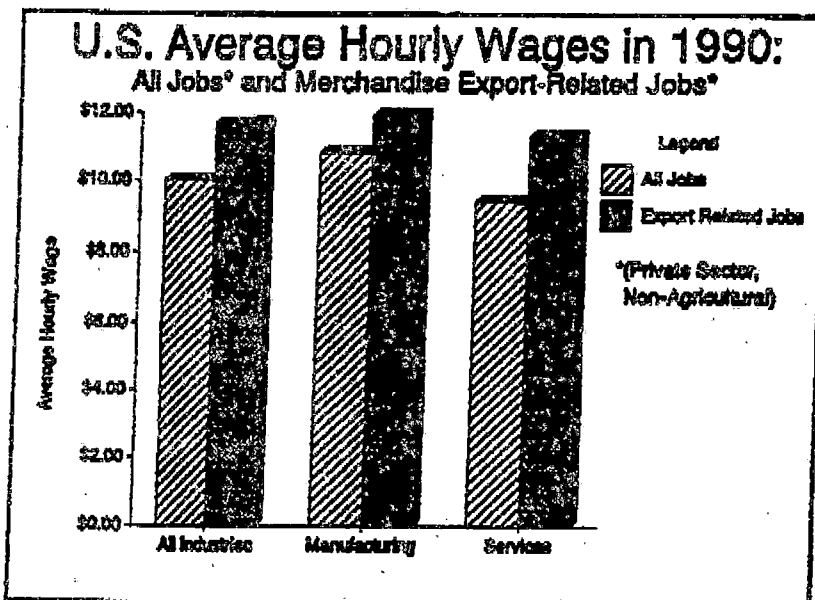
OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

U.S. EXPORTS CREATE HIGH-WAGE EMPLOYMENT

Summary

Expansion of U.S. exports is likely to increase the overall average real wage of all American workers, according to an analysis completed by the U.S. Trade Representative. In a study of recent wage statistics, USTR's Office of the Chief Economist found that U.S. workers employed in export-related jobs earn 17% more than the average worker in the United States. Export-related wages are higher for manufactured and service jobs. Moreover, while service-related jobs generally pay less than manufacturing jobs, service jobs in the export sector were found to pay more on average than manufacturing jobs in the overall economy.

The policy implications are clear: exports are good for the United States and good for U.S. workers. Better paying U.S. jobs are created when foreign markets are open to exports of U.S. goods and services. Initiatives such as the North American Free Trade Agreement, the Uruguay Round of the GATT, and bilateral accords generate growth in exports and an increase in wages for American workers. Higher paying export jobs are threatened when protectionist measures close our borders and invite retaliation. The US must not shrink from international competition, at home or abroad.



- Export-related jobs pay more and are higher skilled than average jobs in the U.S. economy.

Exports are also important because:

- Since 1988, exports have accounted for 75% of U.S. growth.
- In 1991, the U.S. was the world's No. 1 exporter, with \$591 billion worth of goods and services exported. Analysts estimate at least \$610 billion in exports for 1992.
- Each \$1 billion in merchandise exports creates over 19,000 new jobs.

Study on U.S. Export Industries and Wages

The Office of the U.S. Trade Representative analyzed data on U.S. average hourly wages for all jobs and for those jobs directly and indirectly dependent on U.S. merchandise exports. Jobs indirectly tied to exports of goods include jobs in service sectors such as insurance, advertising, and legal and business services.

Key Findings of USTR Study

- The average hourly wage in 1990 for U.S. private sector, non-agricultural workers was \$10.02. The average hourly wage for employment related to merchandise exports, however, was \$11.69, or 16.7 percent higher than the national average.
- Export-related jobs in both manufacturing and in services paid more than their domestic counterparts on average: 10.2 percent more for manufacturing jobs (\$11.93 versus \$10.83 per hour) and 19.8 percent more for services jobs (\$11.30 versus \$9.43 per hour).
- Although manufacturing workers still earn more than service workers, (even among export-related jobs), it is striking that service workers in export-related jobs earn more on average (\$11.30 per hour) than manufacturing workers overall in the U.S. economy (\$10.83).

U.S. Average Hourly Wages in 1990 For Private Sector, Non-Agricultural Workers

	All U.S. Workers	U.S. Merchandise Export-Related Workers	Export-Related Wages as a Percent of Overall
All Industries	\$10.02	\$11.69	116.7%
Manufacturing	\$10.83	\$11.93	110.2%
Services	\$9.43	\$11.30	119.8%

- The strong wage advantage for export-related service workers is particularly encouraging because most of the recent net job creation in the U.S. economy has been in the service sector. In the overall economy, the average hourly wage of service workers is 87.1 percent that of the average hourly manufacturing wage. In export-related jobs, however, the hourly wage of services workers is 94.7 percent that of manufacturing workers.

the inputs and capital goods needed to produce exports, and downstream to transport U.S. products to the port of exportation.

In other words, the Commerce Department report traces the job-creating impact of U.S. merchandise exports back to the industries (service-producing as well as goods-producing) of origin of each and every U.S. job directly or indirectly dependent on merchandise exports. In 1990, 3.3 million U.S. full-time equivalent manufacturing jobs, 3.0 million U.S. full-time equivalent service jobs and 0.9 million full-time equivalent jobs in other U.S. sectors (principally agriculture) were required to produce U.S. merchandise exports worth \$423.9 billion.

By matching the number of export-related jobs to average hourly wage data, it is possible both to calculate the average hourly wages of U.S. export-related workers and to compare those wages to U.S. national averages. Such a procedure, in effect, enables an average wage to be derived by re-weighting the industry composition of jobs associated with the production of total domestic output in 1990. The new weights yield the industry composition required to produce U.S. exports in 1990. Such calculations have been made at the Office of the U.S. Trade Representative using wage data for 1990 from Employment and Earnings, U.S. Department of Labor, Bureau of Labor Statistics, March 1991.

USTR's calculations match the Labor Department's private-sector, non-agricultural earnings series to the Commerce Department's export-related job series. The Labor Department data do not report earnings for agricultural workers (and the two data series' definitions of agriculture differ slightly). Nevertheless, it was possible to match 6.7 million export-related jobs (or 93.3 percent of Commerce's total of 7.2 million) to the Labor Department's earnings series. This matching was done with the data disaggregated into 125 employing industries, representing various groupings of 2-digit, 3-digit and 4-digit categories in the Standard Industrial Classification.

Finally, while USTR's study perforce examined jobs tied to merchandise exports because of the Commerce Department data, there is every reason to believe that the same pattern of higher wages in companies exporting services would also prevail.

Supporting Study: USTR's empirical findings are consistent with other work suggesting that the expansion of U.S. exports is likely to increase the overall average real wage of all American workers.

With reference to 1983 trade data, Lawrence F. Katz and Lawrence H. Summers have recently examined employment characteristics (for direct employment only), including average hourly wages, in U.S. export- and import-intensive manufacturing industries. Their empirical evidence is consistent with the wage data developed at

USTR and supports the view that U.S. export expansion through more open markets will increase U.S. average real wages.

The authors write that:¹

...[w]ages in export-intensive industries are 12 percent above average after adjusting for skill differences, while wages in import-intensive industries are 16 percent below average. Roughly similar differentials are observed for both union and non-union workers. The widely cited examples of automobiles and steel, where very high-wage industries face substantial import penetration and are almost completely unable to export, appear to be atypical. The general pattern is that export-intensive industries are the ones with substantial wage premia.

Reflecting patterns of American comparative advantage, export-intensive industries in the United States also employ more skilled workers and do more research and development than import-intensive industries... [pages 106-108]

The authors remark with respect to U.S. trade policy:

These results suggest that, for the United States, policies that succeed in promoting trade and increasing the volume of both exports and imports will tend to raise welfare by moving workers from lower- to higher-wage industries. [page 109]

Contact Point: Office of the Chief Economist
Office of the United States Trade Representative
600 17th Street, NW
Washington D.C. 20506
(202) 395-3583

¹"Can Interindustry Wage Differentials Justify Strategic Trade Policy?," Lawrence F. Katz and Lawrence H. Summers in Trade Policies for International Competitiveness, A National Bureau of Economic Research Conference Report, edited by Robert C. Feenstra, University of Chicago Press, Chicago and London, 1989.

THE WHITE HOUSE

WASHINGTON

July 16, 1992

MEMORANDUM FOR MEMBERS OF THE DOMESTIC POLICY
REFORM BREAKFAST GROUP

FROM: DEAN SCHULTHEISS *DS*

SUBJECT: Reading Material

During the discussion at last Friday's breakfast with Jim Miller, Charles Kolb promised to circulate an article by Stephen Moore of the Cato Institute. That article, and others you may find of interest, are enclosed for your review.

Please be reminded also that our speaker for Friday, July 17 is Bill Niskanen, Chairman of the Cato Institute. Call me this afternoon on 456-2471 to let me know if you plan on attending.

Also, while we have no speakers scheduled for July 24 or 31 at this time, we do intend to meet and speakers will be lined up within the next few days. However, we will not be meeting during the entire month of August as many in our group plan to take their vacations at this time.

Policy Analysis

No. 173

June 19, 1992

Routing

CRISIS? WHAT CRISIS? GEORGE BUSH'S NEVER-ENDING DOMESTIC BUDGET BUILD-UP

by Stephen Moore

Ever since the riots in Los Angeles, critics of the Bush administration have been complaining that it is not spending enough money to solve America's urban problems. According to that assessment, Bush, carrying on the Reagan tradition, is neglecting a wide array of unmet social welfare needs--in education, low-income assistance, job training, housing, and health care. It is not just pro-spending special interest groups that are chastising Bush for his supposed frugality. In March 100 prominent economists, including 5 Nobel laureates, proposed that "to stimulate vigorous economic recovery," the president should launch a "\$50 billion a year program of federal assistance to state and local governments emphasizing public investment in education and infrastructure."¹

Unfortunately, if there is one thing the Bush administration does not need to be prodded to do, it is to spend and borrow money. Bush has been increasing real federal domestic expenditures by 8.7 percent per year, a faster rate of growth than under any previous president since John F. Kennedy.² Since 1989 Bush has also run up bigger deficits, both in dollars and as a percentage of GDP, than any other post-World War II president. If massive growth of government and multi-billion-dollar deficits were the solution to America's economic problems, the nation would be basking in unprecedented prosperity, and Bush would be widely acclaimed as an economic miracle worker.

Stephen Moore is director of fiscal policy studies at the Cato Institute.

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224 Second Street, S.E.
Washington, D.C. 20003

In February 1991 a Cato Institute Policy Analysis first called attention to the rapid build-up of domestic spending during Bush's first two years in office.³ This study reveals evidence that there had been virtually no slowdown in Bush's domestic spending spree. In fiscal year 1992 federal outlays will rise to \$1.5 trillion, 8 percent above inflation. Federal spending will consume a post-World War II record 25.2 percent of gross domestic product this year. In other words, the 1990 budget agreement and the \$200 billion tax increase have done nothing to slow the Bush spending binge. If anything, they have accelerated it. Ten damning details of Bush's fiscal policy mismanagement follow.

1. From the time of Bush's inauguration through the end of this year the domestic portion of U.S. government spending, after accounting for inflation, will have risen by \$175 billion. That is a 28 percent real expansion in just three years. Excluding the cost of the savings-and-loan bailout, domestic programs are still up roughly 24 percent in real terms.

2. No president in the last quarter century has increased spending by so much so rapidly. The 8.7 percent rate of annual increase in the real domestic budget under Bush earns him the distinction of being the biggest spender to occupy the Oval Office since John Kennedy. This administration is spending at twice the rate Jimmy Carter's did. (Ironically, vice presidential candidate Bush helped skewer Carter as a liberal big spender in 1980.)

3. Costs of domestic programs are rising almost across the board. Since 1989 appropriations have risen 48 percent for the Departments of Commerce and State, 22.5 percent for the Department of Energy, 36 percent for the Department of Housing and Urban Development, and 32 percent for the Department of Transportation. Appropriations for the Departments of Labor and Health and Human Services have increased by an astronomical 63 percent.

4. The big lie in Washington in the 1990s is that the federal government is underinvesting in infrastructure, education, children's programs, and other war-on-poverty-programs. Since 1989 real spending has risen 8 percent for education, 11 percent for highways, 58 percent for Head Start, 46 percent for food stamps, and 18 percent for child nutrition. In short, Bush has been a generous benefactor of the Great Society.

5. The Bush administration and the 102nd Congress have even increased the budgets for programs that have the lowest priority. The budgets of 30 major programs that the Reagan administration had proposed terminating in the early 1980s--including the Small Business Administration, the Export-Import Bank, the Job Corps, and the Corporation for Public Broadcasting--will have risen by an average of 44 percent through 1993. Bush has requested many of those increases.

6. It is not true that Bush is an innocent victim of a Democratic-controlled Congress. Without question, this is a free-spending Congress; however, Bush has been requesting big budget increases. His latest budget (for FY 1993) requests spending increases of more than 10 percent for the Departments of Education, Housing and Urban Development, Justice, State, and the Treasury. The Bush budget would increase spending for virtually every domestic purpose above the inflation rate; only defense spending would fall.

7. In three years Bush has not vetoed a single spending bill sent to him by the Democratic Congress because it cost too much. Clearly, the spending epidemic in Washington begins in the White House.

8. Federal borrowing continues to skyrocket under Bush, reversing the progress that had been made in deficit reduction from 1986 to 1989. When Bush became president, the Gramm-Rudman-Hollings path was supposed to bring the federal deficit down to \$64 billion in 1991, \$28 billion in 1992, and \$0 in 1993. Instead, the deficit was \$280 billion in 1991, and it will be \$400 billion in 1992 and \$350 billion in 1993.

9. By veering off the Gramm-Rudman-Hollings track and then abandoning that spending control mechanism altogether in 1990, Bush has increased the federal debt by \$1 trillion over what it should have been. As a result, the federal debt will reach \$4 trillion this year.

10. The Democrats' standard line--that large deficits are a result of the Reagan defense build-up and tax cuts--no longer has even a glimmer of truth to substantiate it. Defense spending as a share of GDP is now lower than it was before Reagan became president, and tax revenues as a share of GDP are exactly at their 1979 level of 19 percent. The increase in the deficit in the 1990s has been due to Bush's raising domestic outlays from 13 to 16.5 percent of GDP in three years.

Bush's mishandling of fiscal policy is reflected in the poor performance of the U.S. economy. Under Bush, through the end of 1991, the U.S. economy grew at a paltry 0.3 percent per year. That is the lowest economic growth rate under any president since Franklin D. Roosevelt. It is more than coincidence that, under big-spending Bush, the economy is not doing well.

Clearly, the key to restoring U.S. prosperity is not some scheme to spend more federal money and drive the national debt up further into the stratosphere. Bush has tried that strategy, and it has produced woeful results. The road to prosperity is to aggressively, and rapidly, cut government spending and substantially reduce the tax burden on American businesses and workers. In short, economic revival depends foremost on shifting "Bushonomics" into reverse.

Budget Growth under George Bush

Under Bush, domestic spending, adjusted for inflation, rose by nearly 10 percent through 1991. Even excluding the cost of the savings-and-loan bailout, the real rate of increase in domestic spending under Bush was more than 6 percent. That was a far cry from the 3 percent "flexible freeze" budget strategy he promised in his 1988 campaign.

When first confronted with evidence of profligate spending, the White House offered reassurance that progress on the budget was right around the corner.⁴ The administration's optimism was based on two factors. First, the \$150 billion savings-and-loan bailout would end in 1992, and when the Resolution Trust Corporation began to sell off the acquired properties and other assets of the failed thrifts thereafter, the government's balance sheet would further improve. Second, Office of Management and Budget director Richard Darman insisted that the 1990 budget deal's tight spending caps would usher in a new era of budget austerity in Washington.

We can now conclude with relative certainty that fiscal progress is not right around the corner. Federal spending continued to accelerate far ahead of predictions in 1991, and it will continue to surge in 1992 and 1993. Table 1 shows that this year total real federal outlays will increase by more than \$100 billion, or 8.2 percent above inflation. Spending as a share of GDP will rise to 25.2 percent--a peacetime record. Figure 1 shows that it took Reagan eight years to reduce federal spending from 24 to 22

Table 1

Growth of Federal Spending under Reagan and Bush

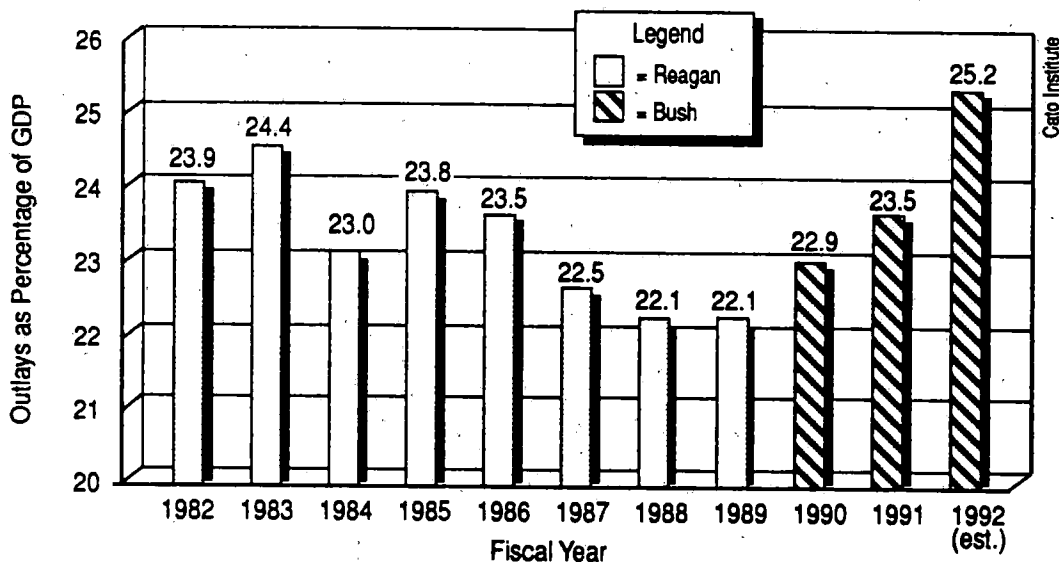
Year	Total (Billion 1992 Dollars)	Percentage Increase	Percent of GDP
1981	1,046		22.9
1982	1,085	3.7	23.9
1983	1,138	4.9	24.4
1984	1,150	1.1	23.0
1985	1,233	7.2	23.8
1986	1,267	2.8	23.5
1987	1,240	2.1	22.5
1988	1,262	1.8	22.1
1989	1,294	2.5	22.1
1990	1,344	3.9	22.9
1991	1,363	1.4	23.5
1992 (est.)	1,475	8.2	25.2

Source: "Historical Tables," Budget of the United States Government for Fiscal Year 1993: Supplement, Tables 1.1, 1.2, 1.3.

percent of GDP, but in three years Bush will have raised spending from 22 to 25 percent of GDP. Clearly, the budget deal is not restraining budget growth.⁵

Figure 1

Total Federal Spending as a Percentage of GDP under Reagan and Bush



Sources: Budget of the United States Government for Fiscal Year 1991; and Budget of the United States Government for Fiscal Year 1993: Supplement, Table 1.2.

The overall spending totals, however, camouflage the size of the Bush budget build-up in a number of areas. Domestic spending has been rising much faster than the overall spending totals, because the military budget has been shrinking slowly but steadily since 1987. In 1987 Pentagon spending accounted for 28 percent of the budget; by next year that figure will be down to 19 percent. So far, Bush and the 102nd Congress have shifted the "peace dividend" from defense to domestic programs. Since 1989 real defense spending (in 1987 dollars) has declined by \$30 billion while real domestic outlays have risen by an astounding \$175 billion.

One way to fully comprehend Bush's massive domestic spending build-up is to compare it with Reagan's celebrated defense build-up in the early 1980s. From 1981 to 1984, Reagan's first three years, the Pentagon budget rose in real

Table 2

Bush's Domestic Build-Up vs. Reagan's Defense Build-Up

Bush Domestic Spending			Reagan Defense Spending		
Year	Amount	Percentage of GDP	Year	Amount	Percentage of GDP
1989	\$616	13.0	1981	\$198	5.3
1990	675	14.0	1982	214	5.9
1991	718	15.2	1983	230	6.3
1992 (est.)	791	16.5	1984	242	6.3
Increase	\$175			\$ 44	
Percentage increase		28.0%			22.0%
Increase as percentage of GDP		3.5%			1.0%

Source: "Historical Tables," Budget of the United States Government for Fiscal Year 1993: Supplement, Table 6.1.

Note: Dollar amounts are billion 1987 dollars and represent total nondefense spending minus net interest on national debt.

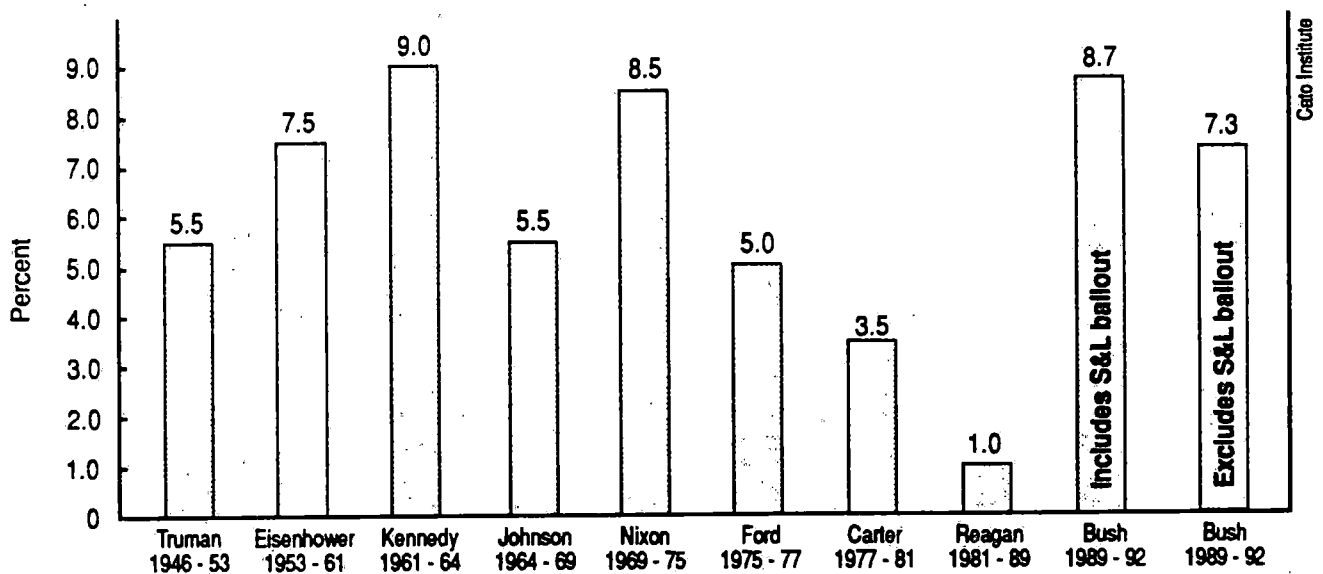
1987 dollars from \$200 billion to \$243 billion, a 22 percent increase. From 1989 through 1992 under Bush the domestic budget will have risen, in 1987 dollars, from \$616 billion to \$791 billion, a 28 percent increase. Even more remarkable, after the first three years of the Reagan defense build-up, military spending had climbed by roughly one percentage point of GDP, from 5.3 to 6.3 percent. After the first three years of the Bush domestic spending build-up, civilian programs had grown by an enormous 3.5 percentage points of GDP, from 13.0 to 16.5 percent (Table 2). After 11 years of Republicans in the White House, the United States today devotes a larger share of GDP to domestic spending than ever before.

Bush's Spending in Historical Perspective

Real domestic outlays under Bush (1989-92) have climbed by 8.7 percent per year. As Figure 2 shows, that makes Bush the largest spender to sit in the White House in the past 30 years. Bush is outspending Lyndon Johnson, the architect of the Great Society and the war on poverty. He is spending at more than double the rate Carter did and at eight times the

Figure 2

Average Annual Real Domestic Spending Increases, by President, 1946-92



Sources: "Historical Tables," *Budget of the United States Government for Fiscal Year 1993: Supplement*, Table 6.1; and author's calculations.

Note: Domestic spending is total nondefense spending minus interest on the national debt.

rate Reagan did. Scott Hodge of the Heritage Foundation finds that Bush will have increased the domestic budget more in 4 years than Carter and Reagan combined did in 12 years, even accounting for inflation.⁶ In 1991 dollars, Carter and Reagan increased domestic programs by \$99 billion from 1977 through 1989, whereas Bush will have increased domestic programs by \$179 billion from 1989 through 1993.⁷

In defense of the Bush administration, it should be noted that some of the growth in expenditures during the past three years has been due to the unavoidable expense of the savings-and-loan bailout. Between 1989 and 1991 that rescue cost taxpayers \$106 billion, and in 1992 it will cost another \$40 billion. Even if we exclude the costs of the bailout from the budget analysis, however, Bush is still a big-spending president. Real domestic expenditures minus the savings-and-loan bailout are increasing by 7.3 percent per year under Bush. That still puts Bush in the ranks of the biggest presidential spenders.

Where Has All the Money Gone?

Under Bush domestic spending has been rising virtually across the board. Table 3 shows the changes from 1989 through 1992 in the federal government's 13 major appropriations. Spending has decreased only for defense, military construction, and foreign operations. Every domestic area has had a double-digit percentage increase, and expenditures for all areas but agriculture have grown faster than inflation: spending (in current dollars) is up 48 percent for the Departments of Commerce and State, 36 percent for the Department of Housing and Urban Development and independent agencies, 63 percent for the Departments of Labor and Health and Human Services, and 19 percent for the Department of Education. That build-up of domestic programs paid for by reductions in defense spending is almost a replay of what Carter did with the federal budget in the post-Vietnam War period--though Bush is moving at a faster pace than Carter did.

Entitlement programs in particular have seen their budgets grow. Entitlements provide benefits to specific targeted groups of people--such as veterans, senior citizens, the disabled, and the poor. Figure 3 shows the explosive growth of entitlements since 1989. By the end of fiscal year 1992, real spending will have risen 46 percent for food stamps, 72 percent for unemployment insurance, 85 percent for Medicaid, and 39 percent for Supplemental Security Income. The only entitlement program that has not been greatly expanded under Bush is Social Security.

Table 3

Growth in Appropriations under Bush

	1989 ^a	1992 ^a	Change (%)
Agriculture	\$ 46.6	\$ 52.5	12.7
Commerce/State	14.8	21.9	48.0
Defense	282.0	271.2	-3.8
Education	22.7	27.0	18.9
Energy	17.8	21.8	22.5
Foreign operations	14.3	14.0	-2.1
HUD/independent agencies	59.4	80.9	36.2
Interior	9.9	12.6	27.3
Labor/HHS ^b	117.7	192.0	63.1
Legislative branch	1.8	2.3	27.8
Military construction	8.8	8.6	-2.3
Transportation	10.8	14.3	32.4
Treasury	16.0	19.9	24.4

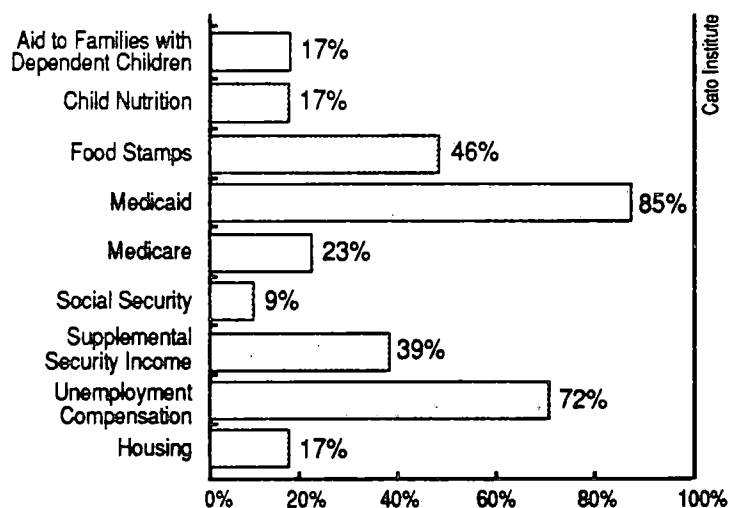
Sources: "Congress Cranks Out 13 Bills in Last 8 Days of Session," *Congressional Quarterly*, November 3, 1990, p. 3723; House Committee on Appropriations, "Actions on Appropriations for Fiscal Years 1991 and 1992, 102nd Congress, 1st Session," November 25, 1991.

^a Billions of current dollars

^b Excludes Social Security spending.

Figure 3

Real Entitlement Spending Increases under Bush, 1989-92



Sources: *Budget of the Government of the United States for Fiscal Year 1991*, Appendix 1, Part 2; *Budget of the United States for Fiscal Year 1993*, Appendix 1, Part 2.

Defenders of the Bush administration contend that it has little authority to limit expenditures on entitlements, since their benefit levels and eligibility requirements are established by law. Indeed, it is for that reason that entitlement spending is often wrongly described as "mandatory" and that its rate of growth is falsely labeled "uncontrollable." The truth is that entitlements are skyrocketing under Bush for three reasons. First, the recession--caused in large part by administrative and congressional policies⁸--is increasing the number of people served by those programs as more Americans lose their jobs and see their incomes decline.

Second, entitlements are growing because Bush and Congress have continually changed the laws to expand benefits and eligibility. The prime example is the lengthening of the duration of unemployment insurance benefits from 26 to 52 weeks, or more in some cases. Another example is the gradual expansion of Medicaid achieved by widening eligibility and by increasing the number of services for which the federal government reimburses the states. It is no accident that Medicaid is growing by more than 20 percent per year.

The third, and perhaps most important, reason for the entitlement explosion is that the 1990 budget agreement removed entitlements from the constraints of broad spending caps and made them immune to changes in the economy. Under the Gramm-Rudman-Hollings budget law, entitlements were de facto capped by overall deficit ceilings. In the GRH era, had entitlements grown and expanded as they are doing today, the increases would have forced massive reductions in almost every area of the budget--including defense and discretionary domestic programs--to meet the deficit ceilings. To avoid those painful cuts, Congress and Reagan did not allow entitlements to spiral out of control. In fact, in the GRH era, real entitlement spending grew by less than 1 percent per year, whereas it has been growing at a real rate of almost 8 percent since 1989.⁹ That indicates that Congress and the president can control entitlements if they wish. But neither Bush nor the current Congress has any desire to do so.¹⁰

Reaganomics in Reverse

Bush's failure to restrain real domestic outlays is perhaps best highlighted by examining the budgets of 30 programs that Reagan had proposed terminating or substantially cutting in the early 1980s. Those programs were identified as the most ineffective, wasteful, outdated, and even in some cases counterproductive of the thousands of federal

programs in the budget. Reagan failed to terminate any of them, but their budgets did shrink in the 1980s. As Table 4 shows, however, many low-priority programs are actually enjoying healthy budget increases under Bush; average real growth over the four-year period (1989-93) will be 44 percent, according to the Bush administration's January 1992 budget proposal. It is important to emphasize that in many cases Bush has requested the increases. Consider these examples:

- * In 1989 the budget for Department of the Interior land acquisition was \$204 million. Bush is asking for \$222 million in 1993. With the federal government already owning close to one-third of the land in the United States, the government should be selling property, not purchasing it.

- * Funding for adult and vocational education would rise from \$953 million in 1989 to \$1.18 billion in 1993 under Bush's latest budget proposal.

- * Bush requests that \$473 million be spent on energy conservation in 1993, up from \$375 million in 1989, despite rapid declines in oil prices in the last three years.

- * Federal spending on family planning would surge from \$375 million in 1989 to \$483 million in 1993.

- * The Corporation for Public Broadcasting will see its budget climb from \$261 million in 1989 to \$309 million next year, if the Bush administration has its way.

- * Outlays for the Job Corps would balloon to \$898 million in 1993, up from \$840 million when Bush took office.

Clearly, if Bush cannot or will not cut spending on the most ineffective and indefensible programs, it should come as no surprise that he is incapable of restraining expenditures elsewhere in the budget.

Table 4

Real Funding of Low-Priority Domestic Programs under Bush

Agency	1989	1991	1992	1993	Percentage Increase, 1989-93
Department of Agriculture					
Child nutrition (middle-income subsidies)	670	764	870	782	17
Forest Service land acquisition	68	62	70	87	28
Soil Conservation Service	772	816	870	782	1
Department of Education					
Adult and Vocational Education	953	1,126	1,080	1,178	24
Bilingual Education	182	196	220	212	17
Educational Research	261	258	340	386	48
Department of Energy					
Energy Supply R&D	2,429	2,252	2,690	2,896	19
Energy Conservation	375	403	460	473	26
Nuclear Physics	295	320	350	347	18
Department of Health and Human Services					
National Health Service Corps	57	93	90	116	104
Family Planning	375	413	460	483	29
Department of the Interior					
Land acquisition	204	196	260	222	9
Bureau of Indian Affairs (education)	306	517	400	405	32
Department of State and Related International Programs					
Peace Corps	170	176	190	203	19
Inter-American Foundation	23	21	20	29	28
Export-Import Bank	57	-93	540	579	920
Agency for International Development	1,476	1,890	2,080	2,606	77
Other Programs					
OSHA	272	269	280	280	3
Consumer Product Safety Commission	34	41	40	39	13
Small Business Administration	91	630	460	290	219
Corporation for Public Broadcasting	261	310	330	309	18
Job Corps	840	837	880	898	7
National Labor Relations Board	159	145	160	164	3
ACTION	182	196	190	193	6

(Continued)

Table 4 (Continued)

Real Funding of Low-Priority Domestic Programs under Bush

Agency	1989	1991	1992	1993	Percentage Increase, 1989-93
Grants for airports	1,283	1,591	1,560	1,690	32
Minority Business Development Agency	45	41	40	48	6
Dislocated Worker Assistance	114	543	40	550	385
Equal Employment Opportunity Commission	207	198	40	229	11
Public Housing	1,725	2,624	3,170	3,629	110
Appalachian Regional Commission	125	165	120	125	1
Total	14,009	17,002	18,300	20,238	44.47

Sources: Budget of the United States Government for Fiscal Year 1991, Appendix 1; Budget of the United States Government for Fiscal Year 1993, Appendix 1.

Note: Outlays in millions of 1992 dollars.

The Myth of Unmet Needs

The pro-spending constituencies in Washington continue to complain that there are high priorities that are not receiving adequate funding under Bush. For instance, in the wake of the Los Angeles rioting, the media have claimed that the war on poverty has been defunded, thus forcing angry urban citizens into the streets. On NBC Nightly News Lisa Myers expressed the notion that the Bush administration has been reluctant to fund vital social programs: "It was often said that Ronald Reagan's big budget cuts declared war on the poor. The most that can be said of George Bush is that he declared a cease-fire."¹¹ Items that allegedly fall into the category of "investments in the future" include infrastructure, education, children's programs, job training, and research and development.¹²

The truth, unfortunately, is that the Bush administration has enthusiastically supported virtually all the programs at the top of the left's spending wish list. Table 5 shows that the combined budget, after accounting for inflation, for 12 "high-priority" social welfare, health, education, and infrastructure programs is up almost \$20 billion, or 18 percent, under Bush. The figures in Table 5 would

Table 5

The Myth of Unmet Spending Needs (Millions of 1992 Dollars)

	1989	1992 (est.)	Percentage Increase
AIDS Research	2,577	4,370	70
Airport Grants	1,283	1,560	22
Child Nutrition	5,176	6,110	18
Education	24,529	26,530	8
Environmental Protection Agency	5,573	5,950	7
Food Stamps	15,585	22,720	46
Head Start	1,396	2,200	58
Highways	15,335	16,990	11
National Institutes of Health	7,934	8,510	7
National Science Foundation	1,975	2,320	17
Subsidized Housing	14,200	15,040	6
Women, Infants, and Children Nutrition	2,202	2,620	19
Total	97,764	114,920	18

Sources: Budget of the United States Government for Fiscal Year 1991, Appendix 1; Budget of the United States Government for Fiscal Year 1993, Appendix 1.

seem to contradict the conventional notion that problems with the infrastructure, education, and poverty in America today are the result of spending too little on them.

Who Is to Blame? Congress or Bush?

Apologists for the Bush administration maintain that the president is a victim of a spendthrift Congress, and few would argue that the 102nd Congress has not shown an almost unquenchable appetite for spending. The National Taxpayers Union recently reported that the current members of the 102nd Congress had proposed "\$22 of new spending for every \$1 of spending cuts."¹³ Enacting all bills before the House would cost taxpayers \$793 billion.

But Bush has played a large part in the Washington spending epidemic. The U.S. Constitution gives the president an immensely powerful device for checking the congressional budget process: the veto power.¹⁴ The veto is a blunt but effective instrument for blocking unnecessary

spending. Many successful presidents have made liberal use of the veto over the years. Yet after three years Bush has not vetoed a single piece of legislation because he disagreed with the total spending required.¹⁵ That would seem to be unimpeachable evidence that if Congress is spend-thrift, so is George Bush.

Big spending increases for drug enforcement, space exploration, education, and transportation have been at Bush's insistence, not over his objections. Even after the huge across-the-board spending increases from 1989 to 1992, and despite the restraint supposedly required by the 1990 budget deal, Bush is still requesting 1993 spending increase of 15 percent for education, 16 percent for HUD, and 8 percent for HHS (see Table 6). That is the amount of money the Bush administration wants to spend, not the amount Congress is forcing it to spend.

Although the problem begins in the White House and at OMB, the hundreds of Bush political appointees running the

Table 6

Bush's Spending Requests for 1992 and 1993
(Billions of Current-Year Dollars)

Agency	1992	1993*	Percentage Change
Defense	294.7	277.9	-5.7
Education	26.5	30.4	14.7
Health and Human Services	544.1	585.2	7.6
Housing and Urban Development	24.2	28.1	16.1
Justice	9.4	10.4	10.6
State	4.5	5.2	15.6
Treasury	11.6	12.9	11.2
Environmental Protection Agency	5.9	6.2	5.1

Source: Daniel Mitchell, "A Damning Record on Budgets," Wall Street Journal, February 10, 1992.

*Proposed.

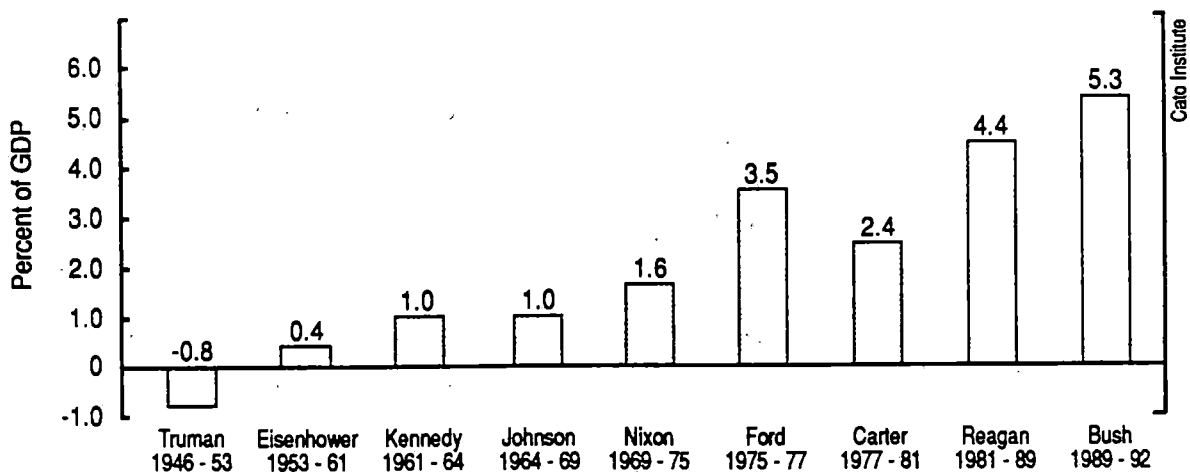
bureaucracy are anything but frugal. Almost none of Bush's people are committed budget cutters. For example, a recent Washington Post editorial hailed Bush's appointments to the board of the Legal Services Corporation because "all have proved committed to the program and a majority support a [50 percent] funding increase."¹⁶ Indeed, the Bush board members lobby actively for more LSC funding. Bush's agency heads throughout the government do the same. Bush's political appointees routinely ask the spending committees of Congress to provide their agencies with more money. Congress virtually always gladly complies.

The Bush Legacy: \$4 Trillion in Debt

When Bush approved the \$200 billion tax increase of 1990 he said he was doing so because the deficit and the national debt had become a cancer eating away at America's economic future. The irony is that no president in the last 40 years has run up debt at the pace Bush has. As Figure 4 shows, the national debt as a share of GDP will average 5.3 percent under Bush, far more red ink than under any president since Franklin D. Roosevelt.

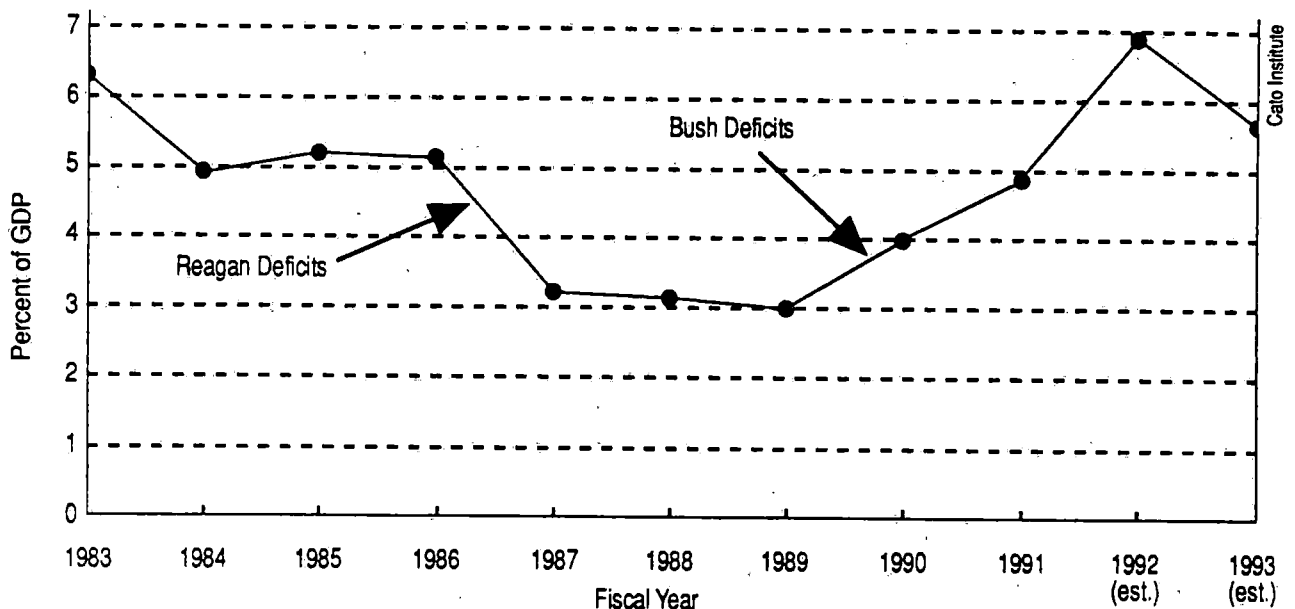
Contrary to conventional mythology, the massive build-up in deficits was both unexpected and avoidable. During

Figure 4
Average Annual Budget Deficit by President



Source: "Historical Tables," *Budget of the United States Government for Fiscal Year 1993: Supplement*, Table 1.2.

Figure 5
Reemergence of Large Budget Deficits under Bush



Sources: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; and "Historical Tables," *Budget of the United States Government for Fiscal Year 1993: Supplement*, Table 1.2.

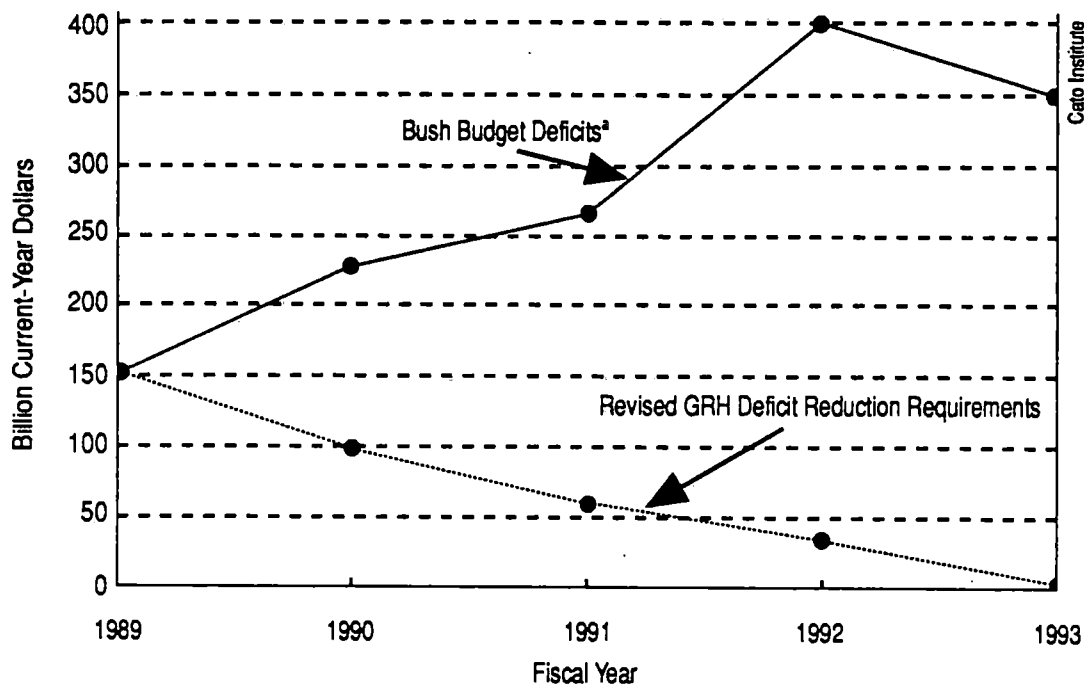
Note: The deficit does not include the cost of Operations Desert Shield and Desert Storm.

Reagan's last four years the deficit was steadily declining. From 1983 through 1989 it fell from \$220 billion to \$150 billion. As a share of GDP, the decline was even more dramatic: from 6 to 3 percent (see Figure 5). No one expected or predicted a rise in the deficit. At the time of Bush's inauguration, January 1989, the CBO, rarely an economic optimist, predicted that the deficit would fall to \$135 billion, or about 2 percent of GDP, by 1992. Instead, the 1992 deficit will be \$400 billion and will approach 7 percent of GDP.

If Bush had not abandoned the Gramm-Rudman-Hollings deficit reduction act, the huge increase in debt would have been avoided. Figure 6 shows the folly of Bush's abandonment of that act. Instead of \$100 billion, the 1990 deficit was \$220 billion. Instead of \$64 billion, the 1991 deficit was \$270 billion. And instead of \$28 billion, the 1992 deficit will be \$400 billion.

Bush's veering off the Gramm-Rudman-Hollings deficit reduction track has resulted in a lot of red ink. The four-year difference between the Gramm-Rudman-Hollings deficit

Figure 6
Bush Budget Deficits Compared with Gramm-Rudman-Hollings Requirements



Sources: CBO, "The 1990 Budget Agreement: An Interim Assessment," December 1990; and "Historical Tables," *Budget of the United States Government for Fiscal Year 1993: Supplement*, Table 1.1.

*Deficits for 1992 and 1993 are latest OMB estimates.

targets and the Bush deficits is \$1.04 trillion of additional federal debt.

Conclusion

The common complaint about George Bush is that he does not seem to believe in anything. That is untrue. If his record tells us anything, it is that he believes in spending money--and unfortunately he is very good at it.

Bush continues to perpetuate the fraud and fiction that his administration is serious about reducing the deficit and the size of government. Yet just six months ago he gleefully signed a \$160 billion budget-busting highway bill and proclaimed that it would create 4 million new jobs.¹⁷ In January he announced that, as part of his Keynesian anti-recession package, he was ordering the Small Business Admin-

istration and other domestic agencies to start spending and loaning money faster--as if they needed encouragement.

This is a president who attempts to justify tens of billions of dollars of increases in public works projects and welfare spending as pro-growth "investments in the future." This is a president who just last month unveiled a multibillion-dollar aid program for the former Soviet republics and a new education reform package that would offer Americans a \$25,000 line of credit with the federal government to finance college tuition and job training. Those are the proposals of a true believer in the efficacy of big government.

The facts are clear: unless, or until, George Bush's spending build-up is ended and then reversed, America will remain in great economic peril.

Notes

1. John M. Berry, "Economists Urge Investing Stimulus," Washington Post, March 31, 1992, p. A-4.
2. Unless otherwise noted, all of the budget numbers in this study come from Budget of the United States Government for Fiscal Year 1993 (Washington: U.S. Government Printing Office, 1992); and Budget of the United States Government for Fiscal Year 1993: Supplement (Washington: U.S. Government Printing Office, February 1992).
3. Stephen Moore, "The Profligate President: A Midterm Report on Bush's Fiscal Policy," Cato Institute Policy Analysis no. 147, February 4, 1991.
4. See, for example, "Director's Introduction (and Overview Tables)," Budget of the United States Government for Fiscal Year 1993.
5. See Stephen Moore, "All Pain, No Gain," National Review, September 9, 1991, pp. 33-34.
6. Scott Hodge, "What George Bush Is Not Being Told about Federal Spending," Heritage Foundation Backgrounder no. 886, March 4, 1992.
7. These numbers exclude the cost of the savings-and-loan bailout.
8. See, for example, William Dunkelberg and John Skorborg, "How Rising Tax Burdens Can Produce Recession," Cato Institute Policy Analysis no. 148, February 21, 1991; and Jonathan Rauch, "The Regulatory President," National Journal, November 30, 1991, pp. 2902-5.

9. Daniel Mitchell, "Dick Darman's Spending Ways," New York Times, March 29, 1992, p. 13.

10. This point was underscored in April 1992 when two-thirds of the Senate voted down an overall cap on entitlements for the next five years. The cap would have simply limited the total annual entitlement growth rate, excluding Social Security, to the rate of inflation, plus caseload growth, plus a two-percentage-point margin for error. Even if the amendment had passed, entitlements would still have been projected to grow by \$150 billion over the next five years. See Eric Pianin, "Senate Sidetracks Curb on Entitlement Funds," Washington Post, April 11, 1992, p. A11.

11. Lisa Myers, NBC Nightly News, May 7, 1992; quoted in Notable Quotables, Media Research Center, May 25, 1992.

12. Robert Reich, "A Budget Cure-All," New Republic, March 2, 1992, pp. 20-22.

13. National Taxpayers Union, "The Congressional Budget Tracking System," Washington, 1992.

14. For a review of president's use of the veto, see James Gattuso and Stephen Moore, "Reagan's Trump Card: The Veto," Heritage Foundation Background no. 198, March 1985.

15. A review of Bush's veto record can be found in "Bush's Veto Record," Washington Post, January 21, 1992. p. A21.

16. "Help for Legal Services," Editorial, Washington Post, April 26, 1992, p. C-6.

17. Bush's belief that government spending creates jobs was recently harpooned by Washington Post satirist Dave Barry, who wrote:

The transportation bill had more than \$5 billion worth of special local projects and favors attached to it by various congresspersons. But this is good, because these projects will CREATE JOBS. See, when the GOVERNMENT spends money, it creates jobs; when the money is left in the hands of TAXPAYERS, God only knows what they do with it. Bake it into pies, probably. Anything to avoid creating jobs.

Dave Barry, Washington Post Magazine, February 23, 1992, p. 36.

A Classroom or a Pulpit?

Some professors are mistakenly trying to convert students to their creed.

By Lynne V. Cheney '63

At the heart of the heated debates going on in the humanities is a question: What is the purpose of education? The traditional view is that it is about pursuing the truth, and this idea is enshrined in countless college mottos: *veritas* at Harvard, *lux et veritas* at Yale and Indiana Universities. At Colorado College, students still read the words over Palmer Hall that I remember: "Ye shall know the truth and the truth shall make you free."

But now what we hear on our campuses is that truth is no more than an illusion constructed by some in order to control others. Scholarly objectivity, the disinterested seeking after information, the impartial weighing of evidence—these are not ideals to be sought, but veils to be ripped aside so that the interests lurking behind them can be exposed.

Philosophers have never found truth to be an easy concept, and scholars have long acknowledged the ways that views can be shaped by experience; but familiar critiques have now become extreme positions. Two historians from the University of Pennsylvania have debunked the idea that historians should be judged by the evidence they cite and the way they use it, because:

We are all engaged in writing a kind of propaganda... Rather than believe in the absolute truth of what we are writing, we must believe in the moral or political position we are taking with it... Historians should assess an argument on the basis of its persuasiveness, its political utility, and its political sincerity.

We cannot forget the truth, in other words, so we should forget about the pursuit of it. Forget about it in scholarship, forget about it in the classroom, forget about it in life—and advance whatever is politically useful. With this rationale for support, some faculty members are now frank advocates of using the classroom for political purpose. Writing in *Harvard Educational Review*, a professor at the University of Wisconsin argues that there is no longer need for professors like herself to be hesitant in stating their intention "to appropriate public resources (classrooms, school supplies, teacher/professor salaries, academic requirements and degrees) to fur-

Philosophers have never found truth to be an easy concept, and scholars have long acknowledged the ways that views can be shaped by experience; but familiar critiques have now become extreme positions.

ther various 'progressive' political agendas." Writing in a recent issue of *College English*, a professor at California Polytechnic State University at San Luis Obispo makes clear that he sees no problem with using the classroom to advance a political agenda. The only question is how to do so most effectively, and he offers his recommendations:

The best starting point is to challenge [students'] conditioned belief in their freedom of choice and mobility within American society by bringing them to a critical awareness of the constrictions in their own class position. ... Under the rhetorical topic of learning to examine issues from viewpoints differing from their own ethnocentric one, they can be exposed to sources delineating the gross inequities between the upper class and themselves; the odds against their attaining room at the top; the way their education... has channeled them toward a mid-level professional and social slot and conditioned them into authoritarian conformity; and their manipulation by the elites controlling big business, mass politics, media for consumerism, in large part through the rhetoric of public doublespeak.

This faculty member is determined to convert his students to his point of view. He has no intention of introducing them to other perspectives. He wants students to share his conviction that the United States is a closed and class-ridden society, and he intends to bring them to this realization under the guise of teaching them how to write.

Such an approach to teaching—and the ethic it implies—is a sharp departure from the way faculty members have traditionally viewed their responsibilities. And it represents as well an entirely new attitude toward students and their rights. It used to be thought that they, like professors, should have academic freedom. They did not come to the college or university to be indoctrinated in the views of their professors. They came to learn about a variety of views on a host of subjects, to explore and challenge a wealth of ideas on how to live and what to value.

Now I suspect that some will try to tell me that I'm overworrying the subject of politics on campus. Not long ago, I heard it put this way: Since the center and right control most of society, what do you care if the left controls the English departments? That is an interesting question but it fails to make some crucial distinctions. Frankly, I don't care what the politics of people teaching in our English departments or any other department are. What does concern me is the classroom being used for political proselytizing no matter what the viewpoint—and not because many conversions happen. A few, perhaps, but my impression is that most students are not affected politically. The price they pay is intellectual. They are deprived of opportunity to engage in the free and open exchange of ideas that should characterize education. They are deprived of opportunity to know wherein the real excitement of learning lies.

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tribute to a government pool to do so. In Germany corporations are required to spend 2.3 percent of payroll for training; in Sweden and Ireland, 2.5; France, 1.5; and Japan, 1 percent. In the United States employers spend an average of 1 percent on training, but 70 percent of that goes for seminars for executives and marketing employees (often at cushy retreats) rather than production workers. Clinton is recommending a 1.5 percent requirement, which may cost corporations as much as \$30 billion a year.

When the "America's Choice" report was completed, Hillary Clinton became chairman of a task force on implementation of its recommendations. In the fall of 1990, she also got the Arkansas Department of Education started on apprenticeship planning, and Bill Clinton pushed the resulting legislation into law in 1991. The state is currently setting up six initial programs to begin this fall. After two years of combined school and training and two more years of training and work, students are supposed to be capable, certified, (and employed) health, computer, radio, or machine technicians.

The Bush administration actually beat Arkansas into the field with six apprenticeship demonstration programs in 1990, created by the Department of Labor's Office of Work Based Learning. Training was nowhere on Bush's own agenda, though, until Lynn Martin became secretary of labor in 1991. She claims that Bush has become an enthusiast on the subject—and, indeed, in some respects his program is bolder than Clinton's.

Bush opposes employer mandates and tax credits. Instead, his "Jobs 2000" legislation places sixty federally funded training programs, including high school vocational education programs and for-profit "proprietary" schools, under supervision of local private industry councils to ensure that programs meet their standards and needs. There's a hitch, however: for-profit trade schools are represented by a powerful lobby in Washington, the Career College Association, which has successfully resisted efforts to link eligibility for receipt of federal student aid checks with placing students in jobs.

Bush should be commended for tackling the proprietary schools, but he's dreaming if he thinks the \$55 million he has proposed spending—just over \$1 million a state—will spur apprenticeships. The administration plan basically calls for better delivery of job training services that the government currently provides, at a cost of \$18 billion. Clinton's apprenticeship scheme, which according to his recent economic plan would cost \$1.5 billion in new funds, is bolder as well as more honest about cost.

In any case, the "forgotten half" is no longer as forgotten as it was. Members of Congress have introduced eight other apprenticeship or worker-training packages. Proposals to address the issue will be part of both Republican and Democratic platforms, and Ross Perot presumably will be along with his own ideas. Between Clinton and Bush, however, Clinton is more likely to make non-college Americans a priority. After all, it wasn't until he started hollering about it that Bush admitted there was a problem. •

Jim Pinkerton and Bill Clinton.

PARADIGM'S LOSS

By Mickey Kaus

In 1988, as director of "opposition research" for the Bush-Quayle campaign, James Pinkerton discovered a furloughed killer named Willie Horton in the past of Democratic presidential candidate Michael Dukakis. The rest is history. In late 1991, as a policy planner in the Bush White House, James Pinkerton ventured an opinion about Democratic presidential candidate Bill Clinton. "I noted with interest Bill Clinton's 'New Covenant' speech," Pinkerton told a Washington symposium. "It seems to me that a Republican could take that speech, change about ten words, and have a pretty good message for the GOP primaries, not to mention the general election."

At the time, Pinkerton had good reason to like Clinton. For more than a year he had been having regular dinners with several Clinton advisers as part of the "New Paradigm Society," a group founded by Pinkerton and Democrat Elaine Kamarck to explore the possibility of a left-right consensus on domestic policy. The New Paradigm envisions a form of government activism that would (in Pinkerton's words) "expand individual choice, empower the poor, and create decentralized, flexible, and adaptable institutions" to replace old-style "centralized bureaucracy." Letting parents choose from among competing schools and letting public housing tenants buy their apartments are the paradigmatic New Paradigm schemes.

Pinkerton wasn't the first to talk about a New Paradigm. Journalist David Osborne coined the term. But the NP is the concept that turned Pinkerton from a gawky political hack into someone *Mademoiselle* actually put on its list of "the greatest lovers of the Western world." I remember going to a Christmas party in 1989 and finding myself in a corner, talking policy with this giraffe-like man who seemed to wear his trousers up around his navel. He was funny and open-minded—at the time he was pushing an idealistic plan to give underclass kids jobs planting trees. Soon I was attending his "paradigm" meetings. The next November budget director Richard Darman sneered at the NP idea in a speech, and Pinkerton sneered back, a brilliant career move. A *Washington Post* "Style" profile quickly followed. In 1990, when I attended the same Christmas party, there was a distinct buzz in the room. "Jim Pinkerton's here!" "Did you see Jim Pinkerton?" "I think Pinkerton's already left." "No he hasn't." People were elbowing Jody Powell out of the way to get to him (just as a decade earlier they

had elbowed others out of the way to get to Jody Powell).

In Pinkerton's expansive view, the NP amounts to nothing less than a "fourth revolution in American government." The first was 1776, the second the creation of a modern nation in the Civil War, the third the New Deal. Now, Pinkerton claims, technology and global markets are breaking down centralized structures, and the "bureaucratic welfare state" is next on the list. "Why can't we use new technology to create a citizen-driven, desktop, user friendly, 800-number government?" he asked, presciently, last September, before Jerry Brown and Ross Perot made the idea a cliché.

Pinkerton dutifully portrays his political patron as the leader of this revolution, even delivering a recent speech in which he compared George Bush and the NP with Abraham Lincoln and the end of slavery. (Pinkerton went on, in all seriousness, to equate Jack Kemp with Harriet Beecher Stowe, and a Congress-bashing Bush sound bite last March with the Emancipation Proclamation.) But Bush, as Pinkerton knows, only talks about the NP because Pinkerton feeds him the words. The presidential candidate who has discussed Pinkerton's idea unbidden, obsessively, is Clinton. His speeches are clotted with references to "empowerment" and "entrepreneurial government." Clinton often cites Osborne's latest book on the subject, which Pinkerton blurbed. In mid-1991, as chair of the Democratic Leadership Council, Clinton delivered a speech Pinkerton could easily have written. "In the Information Age," Clinton said, Democrats could not rely on "monopoly decisions handed down from on high by government bureaucracies...." They needed to "reinvent government."

Nevertheless, shortly after praising Clinton last year (at a symposium proclaiming an emerging, NP-style, left-right consensus), Pinkerton moved back from the White House to the Bush campaign staff, from the job of finding new *weltanschauungen* to the job of finding new Willie Hortons. His mission is now poignantly simple: to destroy the one candidate who seems earnestly engaged with his own New Paradigm idea.

Is that idea worth preserving? It's fair to say that the dominant view of the New Paradigm among insiders (the only people who care) is that it's a crock. This is the position staked out by Darman. It's also the view of many in the non-DLC wing of Clinton's camp, some of whom don't take kindly to the idea of the Governor's aides dining out with GOP hit men. "Intellectual faddism," declares Clinton confidant Derek Shearer. Shearer says he doesn't mind the NP dinners, but finds the concept itself "useless."

Others, especially in the press, tend to think its utility is exclusively political. For Bush, of course, the NP provides the appearance of a domestic agenda. For Clinton, it provides the appearance of heretical innovation. At best, in this view, NP initiatives are useful gimmicks for state and local governments in the Reagan-Bush era of tight budgets—but they hardly amount to a new ideology. Even some Democrats who attended the NP dinners

now emphasize that they did it mainly to make connections. ("It was a clusterfuck," one puts it.)

But you don't have to see the New Paradigm as a new ideology—or even a new paradigm—to realize that Pinkerton may actually be onto something. The place to start, I think, is with a famous essay by Albert O. Hirschman that contrasts two mechanisms by which organizations are made to respond to their own poor performance. One mechanism is "exit." Customers take their business elsewhere. Workers take new jobs. The incompetent organization either improves or dies. The second mechanism is "voice," in which "dissatisfied consumers (or members of an organization), rather than just [going] over to the competition," choose to "kick up a fuss" and thereby force improved quality or service upon delinquent management.

"Exit" is the basic recuperative mechanism of the marketplace. "Voice" is generally associated with some form of politics—with angry parents petitioning their local school board, for example. In 1969, when Hirschman wrote, it's fair to say that "voice" had "exit" on the run. Advocates of the market were being forced to defend a reliance on "exit" even in the private economy. Indeed, Hirschman's essay appealed to American left-liberals because he argued that economic organizations might become more efficient if there were *fewer* opportunities for "exit" (and consumers were therefore forced to exercise their "voice"). Robert B. Reich, another Clinton adviser, got so carried away at one point that he called reliance on voice over exit "close to the heart of what separates modern liberals from modern conservatives."

If so, it's bad news for modern liberals, because in the real world "exit" is now decisively beating out "voice" as a mechanism of accountability. For example, the Detroit auto companies, whose customers were ineffectively "flitting back and forth" in 1969, according to Hirschman, finally did get the message—not so much from Ralph Nader (a practitioner of "voice") but from Nissan and Toyota, to whom consumers began exiting in droves. "Exit," it turns out, works. The New Paradigm can simply be seen as the argument that the mechanism of "exit" should be employed, not just in the private, economic sphere, but, wherever possible, in the public sphere. We can't wait for political "voice" to resuscitate sclerotic urban school systems, the argument goes, any more than we could wait for Detroit to reform itself. Let parents choose their own schools like they choose cars, and the best schools will survive. The worst will disappear.

"Exit" doesn't necessarily require an uncontrolled market. In education, the most radical "choice" scheme would dispense vouchers that parents could exchange at either public or private schools. Affluent parents would undoubtedly take the vouchers, add money of their own, and use it to send their kids to exclusive Exeter-like academies. But another New Paradigm reform, "charter schools," avoids this defect. Under this plan, teachers

continued on page 22

could establish new "public schools" that would compete with all the other public schools for parental business. But tuition charges would be prohibited, and the schools would have to serve all comers on an equal basis. "Exit" would do its work—lousy schools would still go out of business—but without a money-stratified market.

If Hirschman's essay is as important as a generation of liberals have said it is, then Pinkerton's New Paradigm is important too. It doesn't eliminate the question of what government should try to do, and there are areas where "exit" doesn't apply. (Can we give drivers a "choice" of competing highways?) But even if the NP only moved the scrimmage line between "exit" and "voice" a few dozen yards in the direction of "exit," that might amount to a semi-revolution in the practice of government. Liberals like Clinton, who have the keenest interest in seeing that government works, have the most to gain.

Pinkerton claims that, whatever he said in late 1991, Clinton "has fallen short" in NP terms. And indeed Clinton's commitment to "choice" and "empowerment," like so much else about him, has turned out to be a little slippery. The DLC types who are most sympathetic to the NP all say that Clinton understands the idea, and agrees with most of its applications. What they doubt is his political will. He has, for example, endorsed parental choice among existing *public* schools but not the idea of new "charter" schools, which is far more threatening to teachers' unions. (The "public choice" scheme Clinton implemented in Arkansas is especially tepid, requiring students at, say, poor urban schools to obtain the approval of the rich suburban school they want to attend.) Likewise, Clinton endorses "tenant ownership," but cites a program in Tampa that doesn't actually sell off any public housing units. Most conspicuously, Clinton doesn't dare offend public employee unions by talking about contracting government services out to competing private firms.

On the other hand, Clinton recently rebuffed New York Mayor David Dinkins' attempt to gut even the "public school choice" provisions of the Democratic platform. Clinton has also converted all of his state's day care subsidies into NP-style vouchers, and he favors tradeable "pollution credits," an NP approach to environmentalism. Bush, says Osborne, "will mouth [New Paradigm] things that other people come up with . . . but it's not his core. With Clinton, it is his core." As a Democrat, Clinton is probably better-positioned to actually implement NP ideas, on Nixon-goes-to-China grounds.

Pressed, Pinkerton's explanations sound increasingly strained. He notes that, at the unions' behest, the words "entrepreneurial government" were "stricken" from the Democratic platform. ("It's just a phrase," counters Osborne.) Pinkerton says he's disappointed at Clinton's willingness to propose a "massive" tax increase. ("That's ridiculous," says Osborne.) Pinkerton claims Clinton has been forced to rely on "the most retrograde elements in the Democratic Party and in American society: big city mavors." (Osborne calls that "a very elitist thing to say.")

Earlier this year, at the chummy NP party for Osborne's book, Pinkerton gave a more revealing answer when I

asked him how he would feel about savaging Clinton. This happened to be the day, during the New Hampshire primary campaign, when Clinton's famous "draft letter" was released. Pinkerton joked that he didn't think he would have to worry about his Clinton predicament for very long.

But the letter didn't knock Clinton out of the race, and it didn't take Pinkerton off the hook. If a Willie Horton turns up now in Clinton's closet, will Pinkerton use it? Of course. When it comes to winning and losing there is no new paradigm. •

My lunch with a condemned man.

SALMON RUSHDIE

By Geraldine Brooks

LONDON

The man from Scotland Yard's Special Branch had a filament of dust clinging to his hair. He'd been checking for mullahs in my attic. A disembodied voice crackled from the radio under his jacket. "Car is entering the lane, over." He turned to me. "Do you mind if we leave the door open now?"

When Salman Rushdie comes to lunch, he doesn't knock. He's just suddenly *there*, a genie with a floppy brown fedora pulled low over his face. His skin has the fish-like translucence of a man who doesn't see much sun. Outside, the warm air was full of roses and honeysuckle. It would be nice, I thought, to eat in the garden. The Special Branch huddled and discussed the height of my fence. With permission, we sat down under the peach tree, but the curious glances of a house painter on a ladder across the lane soon forced us inside. We retreated to the basement kitchen. Over our heads floorboards creaked under the weight of pacing bodyguards. Radio static drifted down the stairs.

Upstairs, in my study, is a half-written book about women and Islam. On the desk are notes for the chapter about the women of Hezbollah. When I sit down to write, the shadow of the Rushdie *fatwa* falls across the page.

Last fall I met a Hezbollah leader in a shell-scarred village in southern Lebanon. We sat on his sunny terrace. He stared at a floor tile an inch in front of my shoe, so as not to be polluted by gazing at a strange woman. When I told him the title of my book, his black brows knotted. "You will have to be very careful," he said gravely. To his ears, *The Prophet's Daughters* referred to Muhammed's four children—Fatima, Zeinab, Ruqaya, and Um Kalthum. I explained that I meant the title metaphorically, encompassing all Muslim women. "Then you should call your book 'Daughters of Islam,'" he said.

Policy Analysis

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Routing

AMERICA: WHAT WENT RIGHT

by Richard B. McKenzie

The 1980s gave birth to the second longest peacetime economic recovery in the United States since World War II. Yet, in the minds of many Americans, the 1980s were the antithesis of economic renewal. Like the 1920s, the decade of the 1980s was one of decadence. Like the 1930s, it was a period of pervasive economic retreat, of widespread retrogression for the country and the vast majority of its citizens--or so we have been told repeatedly.

Many policy commentators have claimed that in the 1980s the competitive position of American firms and their workers was beaten back both at home and abroad. The decade gave birth to a new form of "robber barons"--Wall Street financiers, dubbed "paper entrepreneurs"--whose new-found wealth detracted from national production and impoverished the poor and, more important to the rhetoric of politicians, practically all of the middle class.

At the end of the 1980s many of the same policy commentators could be heard breathing a sigh of relief in the fond hope that the 1990s would be radically different. Their hopes appeared to be greatly buoyed by the fact that Ronald Reagan, whom they blamed for almost everything that went wrong in the 1980s, would no longer be in command. With anyone else in the White House, the country might become a "kinder, gentler America," as well as a more productive and aggressive competitor.

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But pessimism about the future persisted. After surveying the wanton destruction of property values and the other social and economic problems in late 1991, one national columnist and ardent opponent of the Reagan and Bush administrations observed, "The supply-side turkey has finally come home to roost."¹ A Washington Post columnist added in early 1992, "American citizens have been battered by almost daily evidence that good jobs are disappearing in manufacturing industries--jobs that are likely to be lost forever as companies that once were the pace-setters in their fields hunker down for an indefinite period."²

The vision many people harbor of the 1980s was carefully crafted by a continuous flow of pronouncements to the effect that the sorry state of the U.S. economy would, regrettably, only get worse--unless America's domestic policy course were redirected, if not reversed. Such an overhaul, its advocates maintained, would require greater government spending on social programs and more aid and protection for American industries and their workers as they sought to cope with changing world circumstances. The policy cry became "tit for tat"; the industrial policies of "Japan, Inc.," and "Germany, Inc.," were countered by a similarly aggressive agenda of reforms in this country under the banner of "USA, Inc."

In spite of the foreboding prophecies, the recommended policy agenda was, for the most part, spurned by Democrats and Republicans alike. Nevertheless, the policy chant continues in the 1990s with ever more threatening assessments of the country's economic state and its probable dismal future. Before the recommended reform agenda, articulated under the rubric of a "new industrial policy," is seriously considered--again--as a remedy for the presumed "American disease," the rhetoric of economic destruction, decadence, and decline must be evaluated.

Such an evaluation reveals that the realities of the American economy during the 1980s stand in sharp contrast with the rhetoric. Although the decade failed to match most Americans' fondest dreams of and hopes for economic gains, it was still the most prosperous decade in recorded American history. It was hardly a time of wanton destruction, decadence, and decline. *

On the contrary, sober consideration of the details of what actually happened shows that the decade was "none of the above." More accurately, the decade of the 1980s was one of renewed industrial competitiveness and modest growth that brought equally modest economic gains for most Americans. Many rich and many poor people made substantial eco-

conomic gains and faced significant economic hardships, as has generally been the case through the millenniums. U.S. production did not decline relative to that of the rest of the world; it held its own. Rather than becoming self-indulgent and obsessed with the social theology of "me-ism," Americans increased their charitable giving at an unprecedented rate. In short, the country did not fare too badly during the 1980s.

The "Deindustrialization of America"

Policy debates during the late 1970s were often filled with mournful discussions of "economic malaise," or stagnation, or even more descriptively, "stagflation," meaning high inflation with slow or no economic growth.³ Indeed, during the late 1970s inflation was high by historical standards, reaching, almost year by year, higher and higher peaks. Economic growth slowed as productivity growth fell, in several years, to close to zero. The slowdown was attributable, in part, to the Organization of Oil Producing States' embargoes and to U.S. energy policies that held down energy prices and thereby restrained the growth of energy supplies. The Dow Jones Industrial Average stood at 860 at the start of 1980, less than 80 points (or 10 percent) above the start of 1970--a substantial drop when adjusted for inflation.

Public commentaries on the fate of the U.S. economy began to take on a more foreboding tone after the turn of the decade, especially after the advent of the 1981-82 recession, which was itself caused, to a considerable extent, by the harsh anti-inflation policies the Federal Reserve had adopted in late 1979. Professor George Lodge of the Harvard Business School warned that the country was beset with a peculiarly "American disease" (a phrase obviously intended to equate America's problems with those of Great Britain and its "British disease") and opened his 1984 book on the subject with a dreadful assessment.

The cold winter of 1982 brought home to America the realization that our economy, once the wonder of the world, was failing. The power and efficiency of the industrial system, which since World War II had been taken for granted, was eroding. The United States was aware, for the first time, of losing ground in the competitive race with other developed nations.⁴

The symptoms of the American disease were to be found everywhere, in slow economic growth, rising interest rates,

plunging profits, lagging business investment, and stagnating wealth. "In fact," Lodge added, "every indicator, social as well as economic, revealed sickness," meaning that the sickness was not solely a product of the recession and probably would not be cured by normal recovery forces.⁵

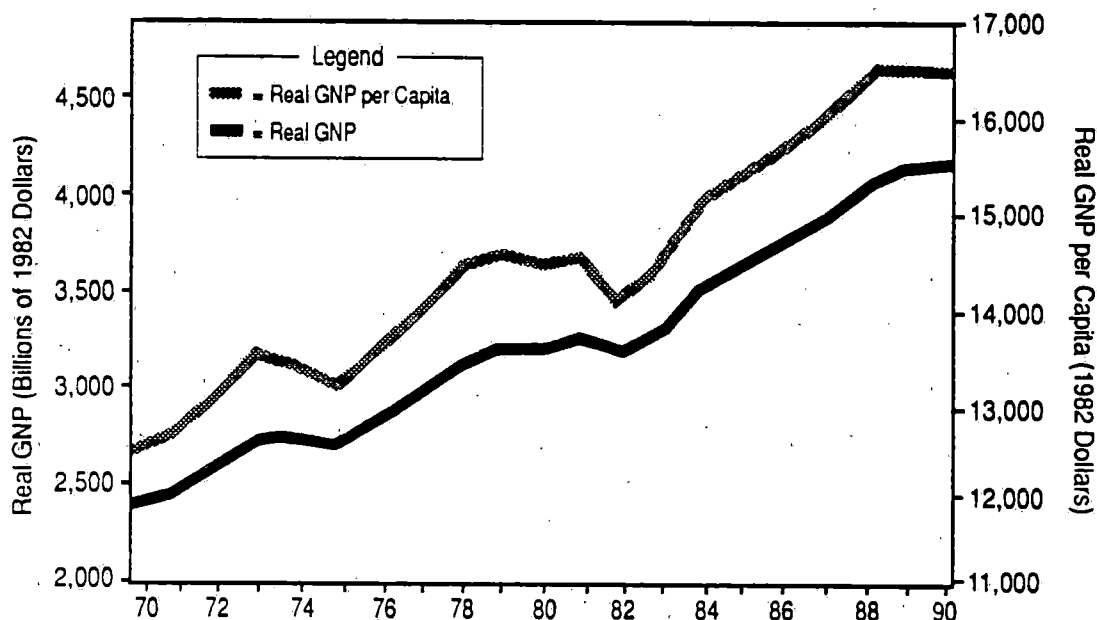
Boston College economist Barry Bluestone agreed, insisting with every stroke of his pen that the pace of job destruction, especially in the industrial sector, was both alarming and accelerating. He recounted that 31 million jobs had been destroyed between 1978 and 1982, noting that "fully one-third of all private sector jobs in 1978 had disappeared by 1982."⁶ By 1984 Bluestone and Bennett Harrison had developed their empirical case for job losses sufficiently to declare flatly that America was rapidly "deindustrializing," meaning the country was losing its manufacturing base, the supposed heart of the economy.⁷ The primary causes: the decline of unions, the growing competitiveness of world markets and the invasion of domestic markets by imports, and the failure of the U.S. government to adopt explicit "industrial policies" that would have the effect of guiding the industrial redevelopment of the country. Harvard professor Robert Reich, as well as other academics in northeastern universities, seconded the call for a national industrial policy with a more solemn pronouncement: the country was "unraveling," slowly but surely.⁸ That theme struck such a responsive chord that thousands flocked to buy his book, The Next American Frontier, perhaps because the Dow Jones average had fallen from just over 1000 in April 1981 to 804 in June 1982.

Now that the 1980s are behind us, we can ascertain what really happened. We know that proposals for a national industrial policy went down in flaming defeat in the 1984 election with Walter Mondale, who had made such policies the hallmark of his campaign. Moreover, the economy did not continue on the economic skids, as had been forcefully predicted. Instead, economic growth rebounded. Total employment went up by 19 million between 1980 and 1990, in spite of all the talk about the destruction of jobs.

Industrial production continued upward. Figure 1 shows the continuing rise in inflation-adjusted, or real, gross national product between 1970 and 1990. Indeed, between 1980 and 1990 real GNP expanded by 30 percent. Real per capita GNP expanded by 18 percent, and Figure 1 reveals that economic growth began to accelerate at about the same time many of the initial dreadful predictions were reaching print in the very early 1980s.

Figure 1

Real Gross National Product and Real Gross National Product per Capita, 1970-90



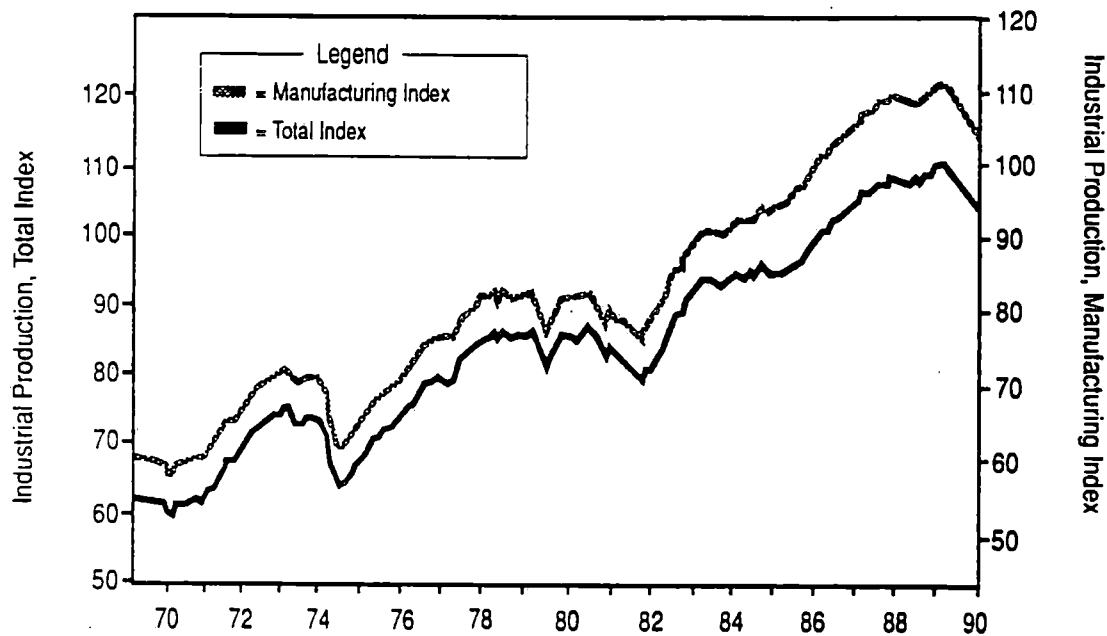
Sources: Council of Economic Advisers, *Economic Report of the President: 1991* (Washington: U.S. Government Printing Office, February 1991); and author's calculations.

Did the country deindustrialize? Hardly. The Federal Reserve's production indexes for all industries and for manufacturing alone are plotted in Figure 2. The figure shows that the overall industrial production index rose in line with GNP, by 29 percent, between January 1980 and September 1990 (just before the start of the current recession). Contrary to all the predictions of the demise of U.S. manufacturing, the manufacturing index rose both absolutely and relatively, by 37 percent, during the same period.

Furthermore, real, inflation-adjusted manufacturing output rose by 38 percent between 1980 and 1989 (the latest year for which data are available). That means that in 1989 manufacturing output represented a higher percentage of GNP (22.6 percent) than it did in 1980 (21 percent). For that matter, as is evident in Figure 3, manufacturing output as a share of GNP was higher, albeit modestly so, in 1989 than in any other year (except 1973 and 1988) since 1947. Finally, the increase in manufacturing over the last two decades has not been confined to nonconsequential consumer goods. Between 1967 and 1989 capital goods production (excluding defense and automobiles) rose from 28 percent to 38 percent of manufacturing production. During the same period exports

Figure 2

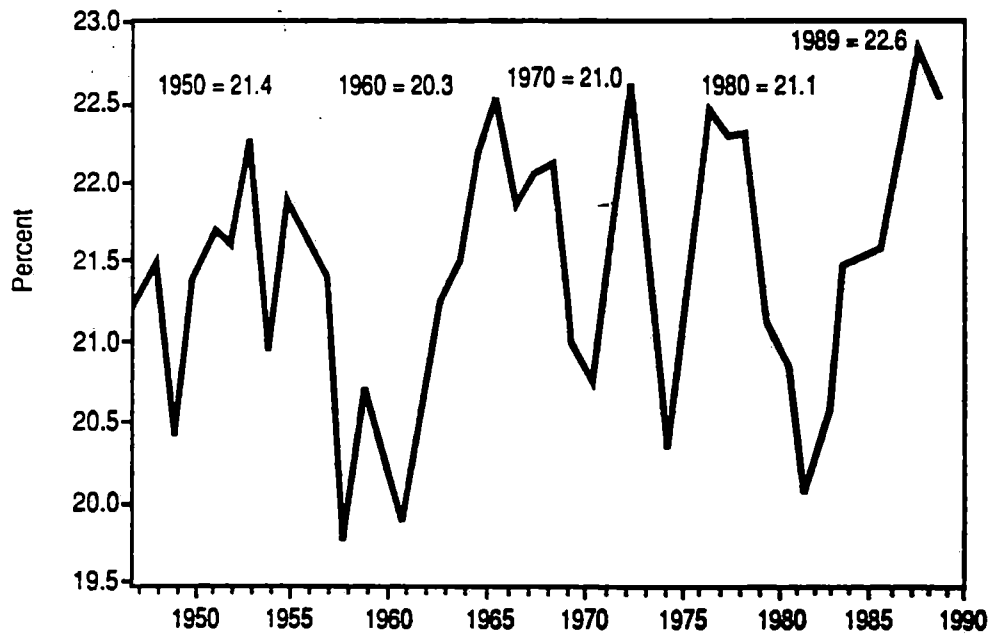
Total Industrial Index and Manufacturing Industrial Production Index, 1970-90 (1987=100)



Source: CITIBASE: Citibank economic database (machine-readable magnetic tape file), 1946-present (New York: Citibank, N.A., 1991).

Figure 3

U.S. Manufacturing Output as a Percentage of Gross National Product, 1947-90



Sources: Council of Economic Advisers, *Economic Report of the President: 1991* (Washington: U.S. Government Printing Office, February 1991); and author's calculations.

of capital goods rose from 20 percent of total capital goods production to 45 percent, tripling as a share of the country's gross output.⁹

The belief that the country was deindustrializing was aggravated by the view that we were becoming a "service economy," which was truly worrisome not only because, the country was often reminded, "manufacturing matters" but also because the survival, not just the health, of the service economy is tied inextricably to the manufacturing sector. "Lose manufacturing and you lose--not develop--those high-wage services."¹⁰ Others warned that we "could not really afford to become a nation of people engaged in selling Egg McMuffins and insurance to one another."¹¹ "Surely the American people," a national newspaper editorialized, "are not willing to become merely a service economy. The American economy is as much built around the sinews and muscle of the factory line as the white-collar office."¹² Nevertheless, service employment continued to displace manufacturing employment, coming very close to the long-term trend charted long before the 1980s, at the same time incomes rose.¹³

True, domestic-based manufacturing employment fell from 20.3 million in 1980 to 19.1 million in 1990, or by 6 percent. However, that loss reflects the surge in manufacturing productivity that occurred in many industries during the 1980s in response to both foreign and domestic competitive pressures. If manufacturing employment had risen in line with production, it is a safe bet that manufacturing output would have represented a smaller share of GNP in 1990 than it actually did, because manufacturing in the United States would not then have been cost-effective. With the improvement in the cost-effectiveness of manufacturing, U.S. exports of manufactured goods grew by a remarkable 90 percent between 1986 and 1992, compared with 25 percent for the rest of the members of the Organization for Economic Cooperation and Development. That relative change enabled the United States to raise its share of the world's manufacturing exports from 14 percent in 1987 to 18 percent in 1991, thereby regaining its 1980 share of world manufacturing trade.

Just as important, the manufacturing base of the U.S. domestic economy is no longer represented by the 50 states; it is scattered worldwide. While U.S. manufacturing employment fell as a share of total employment from 20 percent in 1980 to 16 percent in 1990, U.S. manufacturing employment worldwide held steady at 30 percent of the world total through at least 1986 (the latest year for which data are available).¹⁴ That suggests that the decline in manufacturing employment in the United States was part of a world

phenomenon, sparked by world competition that U.S. producers had to meet--and most did meet.

Fears of deindustrialization have been encouraged by commentaries on the country's low saving and investment rates during the 1980s. Such commentaries might lead one to think that the stock market was totally disconnected from the real world. Few commentators have recognized that the compound annual rate of growth of real private net worth (including tangible and financial wealth) was 2.69 percent during the 1960s and 3.02 percent during the 1970s. During the 1980-89 period the compound annual rate of growth was 3.43 percent, 14 percent higher than during the 1970s and 28 percent higher than during the 1960s.¹⁵ The growth in wealth was not concentrated among the "rich," as has been assumed. According to one study, the wealth of the quintile of households with the highest incomes grew 49 percent between 1983 and 1989. During the same period, the growth in the wealth of the quintile with the lowest incomes was 55 percent.¹⁶

The Relative "Decline of America"

With their deindustrialization fears dashed by the continuing expansion and without ever acknowledging the errors in their previous claims, the Chicken Littles of the country began in the mid-1980s to subtly alter their foreboding prophecies. The country was, they professed, in long-term economic decline, not so much absolutely (it clearly was not) but relatively--that is, in comparison with the rest of the world.¹⁷ The collapse of communism and the current efforts of the former Soviet republics and the former Eastern bloc countries to duplicate the market system of the United States speak volumes about the misguided predictions of the proponents of the decline thesis who, nevertheless, argue that U.S. political successes obscured the economic tumble of the country in the world economy.

Daniel Sharp, president of the American Assembly, wrote without qualification, "America can't compete."¹⁸ The chief evidence offered was the huge balance-of-trade deficits and the failure of the falling dollar to materially reduce those deficits. Joel Kurtzman warned that the United States needed to alter its economic course, principally through national planning, to "end the steep decline of our nation so that we can once again assume our position at the helm of the world's economy."¹⁹ He argued that if the country had remained on the path of economic dominance established in the 1950s, "the world of today would be considerably different, with poverty perhaps eradicated from the planet and the

American engine of global growth pulling the world to ever higher levels of wealth."²⁰ "The saddest outcome of all," wrote Harvard economist Benjamin Friedman, "would be for America's decline to go on, but to go on so gradually that by the time the members of the next generation are old enough to begin asking who was responsible for their diminished circumstances, they will not even know what they have lost."²¹

Others warned with equal conviction that the global economy was in "deep trouble," mainly because of U.S. excesses: excessive budget deficits, excessive trade deficits, excessive inattentiveness to domestic social ills, and excessive reliance on military strength. "American policy in recent years," we were told, had been "more and more addicted to wishful thinking. Economically, . . . the era of comfortable self-indulgence appears near its close. Today the United States is on a collision course with history. The American fiscal dilemma must be resolved, and the perpetual instability of the dollar that is the consequence must cease."²²

Through his widely read book, Yale historian Paul Kennedy probably did more than anyone else to substantiate growing despair over the country's fate. In spite of modern signs to the contrary, Kennedy argued that America was following a well-worn, historically validated road to economic decline, if not ruin.²³ According to Kennedy, history is replete with countries that rose to the status of world powers, measured by economic and military might, only to overextend themselves and fall relatively, if not absolutely, to their world neighbors. Kennedy wrote that relative economic standing among nations is important only because it largely determines relative political and military might in the world.²⁴

According to Kennedy, the relative decline of the United States was apparent in its declining share of world gross national product (especially the manufactured goods component), in its lost industrial jobs, in its growing trade balance, and in the shrinking share of world trade dominated by U.S. producers.²⁵ Indeed, as Kennedy reported, U.S. production relative to that of the rest of the world was in decline, given the limited number of years for which data were cited.²⁶ For example, in 1945 the United States accounted for approximately half of the world's aggregate production. By 1960 the expected economic recovery of war-torn countries had lowered the U.S. share to 44 percent, and by 1970 the U.S. share was down to 38 percent. By the early 1980s, when Kennedy must have started writing his book, it had fallen even further, to 32 percent, which caused Kennedy

to claim that "it was still falling."²⁷ Of course, it is hardly surprising that the U.S. share of world GNP fell after 1945; at that time the rest of the industrialized world--Japan, Germany, Britain, France, and Italy--had suffered far more from bombing and the other ravages of war than had the United States. Only if Europe and Japan had not recovered from World War II could the United States have maintained its relative position in the world. Even so, Kennedy spoke too soon.

Future decline was practically assured, according to Kennedy, unless the United States dramatically reformed its ways. At the same time, Kennedy doubted the capacity of the United States to buck historical trends. In fact, he was so sure of his gloomy prognosis for the country that he maintained that the main "task facing American statesmen over the next decades, therefore, is to recognize that broad trends are under way, and that there is a need to 'manage' affairs so that the relative erosion of the United States' position takes place slowly and smoothly, and is not accelerated by policies which bring merely short-term advantage but longer-term disadvantage."²⁸

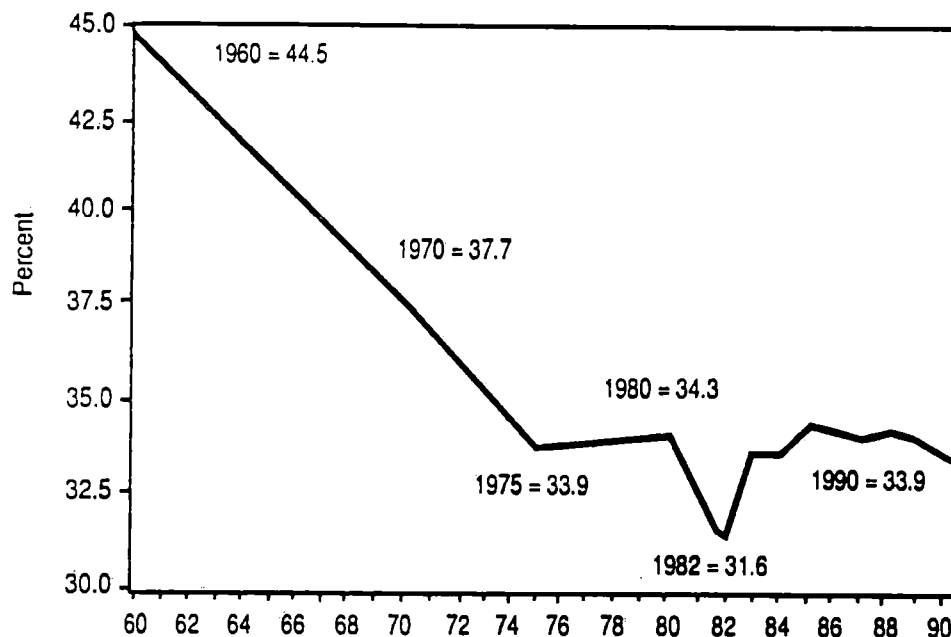
It is particularly unfortunate that Kennedy and others looked at so few data points and stopped looking at the data in the early 1980s. A more comprehensive review of the available data draws into question the thesis of relative decline.

Real GNP for the United States and the world (excluding the United States), as computed and reported by the Central Intelligence Agency (a principal data source of the studies cited by Kennedy), does indeed show an expansion of world and U.S. real GNP. Between 1960 and 1990 world GNP grew by 203 percent, whereas U.S. GNP grew by 150 percent. A long-term relative decline of sorts is evident in those comparisons.

However, when U.S. GNP is computed as a percentage of the GNP of the rest of the world (world GNP minus U.S. GNP) year by year, assessments of long-term economic decline become far more tenuous, if not totally premature. As is evident in Figure 4, U.S. GNP as a percentage of the GNP of the rest of the world fell from 1960 through the mid-1970s. But, somewhere around 1975, U.S. GNP relative to that of the rest of the world began to level off; the U.S. share held close to 34 percent in 1975 and 1980 and fell off to under 32 percent in 1982. What may be startling about the data in Figure 4 is that in the middle and late 1980s U.S. national production relative to that of the rest of the world began

Figure 4

U.S. Gross National Product as a Percentage of That of the Rest of the World, Selected Years, 1960-90



Sources: Central Intelligence Agency, *Handbook of Economic Statistics* (Washington: U.S. Department of Commerce, National Technical Information Service, 1987, 1988, 1990, and 1991 editions); and author's calculations.

to rise somewhat, reaching a peak of over 34 percent in 1988 (and remaining just under 34 percent in 1990).

Critics may worry that the argument has been distorted by comparing the performance of the United States with that of the rest of the world, which includes a lot of under-developed countries that grew slowly or retrogressed during the 1980s. It is true, however, that U.S. national production declined relative to that of Japan during the 1980s. In 1990 the U.S. GNP was 2.6 times Japan's GNP, down from 3 times Japan's GNP in 1980. On the other hand, U.S. GNP grew from 5.1 times Germany's GNP in 1980 to 5.4 times Germany's GNP in 1990. During the 1980s U.S. GNP grew relatively but modestly, from 97 percent of that of the rest of the developed world (excluding Japan and Germany) in 1980 to 101 percent in 1989 (the latest year for which data are available).

Real-world investors continued to ignore, for the most part, the prophets of doom and continued to look at what was really happening to the economy. Granted, the Dow Jones

index fell by more than 700 (or 28 percent) in late 1987, a precipitous drop that, no doubt, fortified the confidence of the doomsayers in their dismal predictions. Nevertheless, the market recovered all of the lost ground by late 1988; the Dow Jones average reached 2148 in December--two and a half times its level at the start of the decade.

The "Great U-Turn" in Worker Wages

All of the cheery economic news notwithstanding, Bluestone and Harrison returned to print in 1988 with a slightly augmented beat on their dismal analytical drum.²⁹ They published a new treatise called The Great U-Turn in which they more carefully explained how the American economy had, beginning in the early 1970s, begun to make a U-turn on the road of economic progress.³⁰ Their book opens with a foreboding claim, "The standard of living of American workers--and a growing number of their families--is in serious trouble. For every affluent 'yuppie' in an expensive big-city condominium, . . . there are many more people whose wages have fallen and whose families are finding it more and more difficult to make ends meet."³¹ The evidence, Bluestone and Harrison argued, demands that the country "turn back toward greater planning and away from the treacherous path of laissez-faire."³²

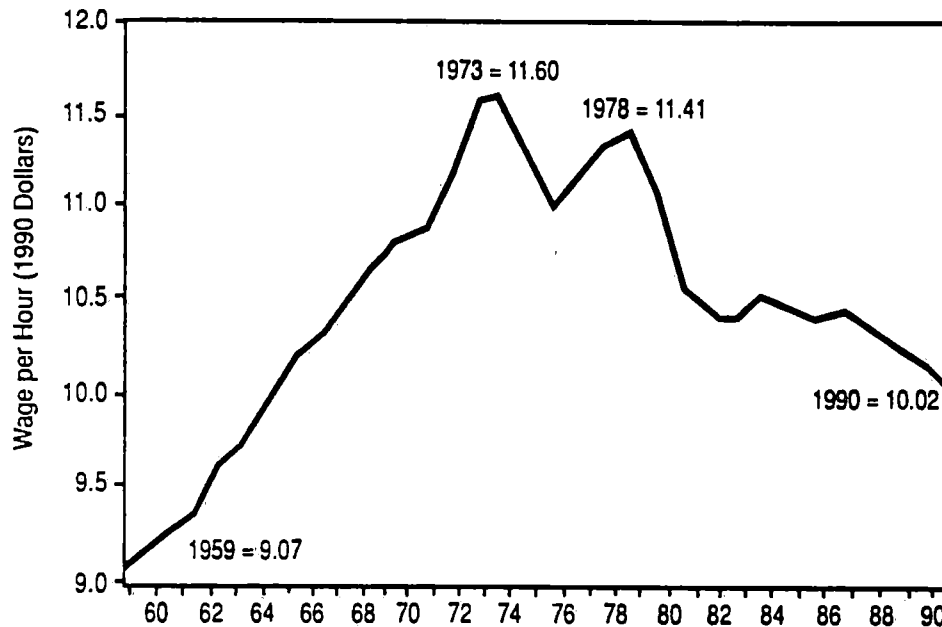
A key (but not the only) statistic used to support their conclusion is the reversal in the real (inflation-adjusted) average wage of production and nonsupervisory workers.³³ Everyone knows that the average worker's wage, in current dollars, has continued to rise. However, Bluestone and Harrison rightfully argued that the change in the number of dollars earned per hour can be misleading, mainly because a dollar of wages cannot buy as much as it once could. After adjusting for changes in prices, higher wages might even buy less, in which case one could argue that workers have suffered a U-turn in their standard of living.

Bluestone and Harrison plotted average real wages of workers and included in their book a graph similar to Figure 5. Obviously, the real (inflation-adjusted to 1990 prices) average worker wage did rise by 28 percent from 1959 (\$9.07) to 1973 (\$11.60), after which it fell irregularly by 14 percent, or to \$10.02, over the following 17 years. There is something of an inverted U in the data.

To properly evaluate Bluestone and Harrison's thesis, the data must be adjusted for inflation in some consistent manner. The consumer price index (CPI) that Bluestone

Figure 5

The "Great U-Turn" in Real Wages of Production Workers, 1959-90, Adjusted by the CPI



Sources: Council of Economic Advisers, *Economic Report of the President: 1991* (Washington: U.S. Government Printing Office, February 1991); and author's calculations.

and Harrison use is inconsistent, since the method used for computing it was abruptly changed in 1983, primarily because the method used to compute the index until 1983 overstated the rate of inflation. It did so because the estimated change in the cost of housing was based on the change in the purchase price of housing, not the more realistic change in the imputed rental cost of housing, which has been used since 1983. Hence, use of the standard CPI in adjusting wages for the effects of inflation understates the growth in real wages (or overstates their fall).³⁴

Bluestone and Harrison's analysis is defective because it relies on the standard CPI, with its inconsistent methods of controlling for changes in the cost of housing. Fortunately, statisticians at the Bureau of Labor Statistics have developed the so-called experimental, although not widely known, consumer price index (dubbed the CPI-X or, more properly, the CPI-X-U1), which uses the new method of computing the cost of housing for all years. The BLS has recomputed the CPI-X back to 1967, and the Council of Economic Advisers has extended it back to 1959.

If workers' average real wages are computed using the experimental price index, the U in Bluestone and Harrison's

U-turn is not so "great." Still, there remains some decline in worker real wages, from \$11.02 per hour in 1978 to \$10.02 in 1990, or about 9 percent.

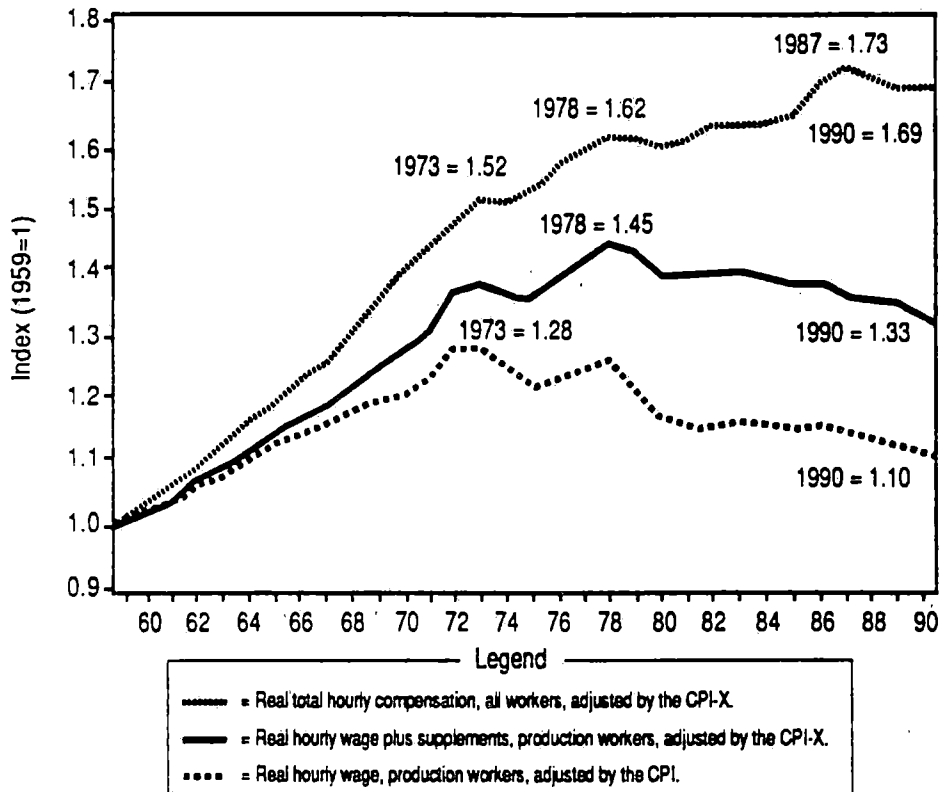
Does that mean that workers are, on average, worse off, albeit slightly? That type of data would certainly suggest that the obvious answer is an unqualified yes. However, there are good reasons for doubt. The most important reason is that per capita disposable income in the United States grew in real dollar terms by 21 percent between 1978 and 1990. It would have been odd had real wages declined at the same time real disposable income per capita was growing. Bluestone and Harrison would probably say that the apparent discrepancy between the growth in disposable income and the decline in worker wages reflects the redistribution of the country's income base from workers to property owners.

The income paradox can, however, be partially explained by another form of income redistribution; the form in which earnings are received has shifted from wages to other benefits (employer contributions to social insurance, health and life insurance, and retirement funds; vacation days; and many other fringe benefits). Nonwage compensation as a percentage of wages and salaries rose dramatically in the 1960s and 1970s, from just under 9 percent in 1960 to nearly 21 percent in 1990. The fact of the matter is that workers were, understandably, gradually taking a larger share of their earnings in nonwage forms. Many fringe benefits are nontaxable forms of income.

Moreover, by persistently raising Social Security and other payroll taxes imposed on employers, Congress has forced workers to accept lower wages. In 1990 dollars, average employer real-dollar contributions to social insurance more than tripled between 1960 and 1990, from 4.6 percent of hourly wages and salaries in 1960, to 7.8 percent in 1973, and then to 10.4 percent in 1988. Employers would just as soon have paid that money to their workers as wages.

Figure 6 shows Bluestone and Harrison's U-turn in real worker wages, computed using the CPI, that was shown in Figure 5, but with a difference: the real wage for each year is computed relative to the 1959 level. That index, represented by the bottom line, rises from 1.00 in 1959 to 1.28 in 1973 and then falls off to 1.10 in 1990. When fringe benefits are roughly added to real hourly wages and the resulting total real compensation per hour is recomputed using the CPI-X, total real hourly compensation, shown by the middle line, rises from 1.00 in 1959 to 1.45 in 1978 and then falls to 1.33, or by 8 percent, in 1990, describing a U that looks more like an upside-down L.

Figure 6
Different Measures of Worker's Hourly Wage, 1959-90



Sources: Council of Economic Advisers, *Economic Report of the President:1991* (Washington: U.S. Government Printing Office, February 1991); unpublished data from the Council of Economic Advisers; and author's calculations.

The "average hourly wage" remains defective as a measure of the income of American workers, mainly because the wages of 20 or so percent of Americans who are not classified as "production and nonsupervisory workers" are not included. In addition, the increase in the participation of women and minorities in the labor force and the growing use of part-time workers during the 1970s and 1980s were factors that pulled the average wage down, in spite of the fact that the greater employment of women and minorities meant income gains for many of their families. That is the case simply because women, minorities, and part-time workers tend to earn less than the average. In 1973 women represented 38 percent of the civilian labor force. By 1990 they represented 45 percent. In 1973 nonwhite workers represented 11 percent of the civilian labor force, whereas they represented 14 percent in 1990.

Moreover, during the 1980s hourly wages gradually gave way to other forms of compensation, namely salaries and year-end and production bonuses.³⁵ In 1973 total hourly wages represented 57 percent of total wages and salaries, and in 1989 they represented 49 percent.

If total worker compensation (including all wage and nonwage benefits) in all forms for all workers is computed on an average hourly basis and adjusted for inflation by using the CPI-X, the widely advertised "great U-turn" evaporates totally (see the top line of Figure 6). Probably to the dismay (and regret) of many "dismal scientists," that figure reveals that average worker welfare has continued to march upward. Real total compensation per hour was \$9.61 in 1959, \$14.58 in 1973, \$15.53 in 1978, and (after peaking at \$16.60 in 1987) \$16.25 in 1990. (That growth is represented in Figure 6 by a rise in the index from 1.00 in 1959, to 1.52 in 1973, to 1.62 in 1978, and to 1.69 in 1990.) However, the higher measure of income does not account for the fact that "quality" improvements in the goods and services Americans buy often result in higher prices. If the consumer price index does not properly adjust for quality changes, which it cannot always do, the computed real wage will understate any rise in people's true living standard. In the 1980s many American industries greatly elevated "quality" as a goal, partially because of the growing importance of international trade. The fact that quality has become "Job 1" for many firms probably means that computed real wages understate the improvement in America's living standard.

Nevertheless, it is evident that the more optimistic reformulation of average American compensation, reflected in the top line of Figure 6, indicates that growth slowed significantly after 1973. From 1959 to 1973 real compensation grew at a compound annual rate of slightly more than 3 percent. From 1973 to 1990 real compensation rose at a rate that was less than two-thirds of 1 percent. The core of the real economic problem of the 1970s and 1980s was not a U-turn but a slowdown in the growth of worker wages. No one has been able to fully explain that slowdown, although most analysts attribute it, in the most general terms, to a slowdown in the growth of worker productivity. The slowdown in the growth of worker productivity has been attributed to low private savings and investment rates, declines in the performance of American students in public schools, the oil crises of the 1970s, growth in government regulations (especially environmental regulations), the decline of unions with the growing competitiveness of the domestic and international economies, and growth in social problems (for example, crime) since the early 1970s.

To deny a "great U-turn" and to acknowledge that there was a slowdown in the growth of real worker wages is not to dismiss the problems confronting the American economy. It is, however, a way of putting the country's problems in proper perspective in order to avoid unnecessary policy solutions. Dramatic policies organized to reverse a "great U-turn" may not be appropriate for bolstering an income level that is already on the rise. Furthermore, even if Bluestone and Harrison and others were correct in their assessment of a U-turn, it is incorrect to deduce that all, or even a sizable segment of, Americans were falling behind in real hourly compensation. That is true because averages are just that, averages, and even though the "average" is falling, the real hourly compensation of many American workers (including many low-income workers) may well be rising.

The "Decade of Greed"

Greed has been a problem since at least biblical times. Nevertheless, policy critics have maintained that greed was unabashedly fostered during the 1980s by the Reagan administration, which was intent on lowering tax rates to encourage ostentatious consumption by its principal supporters.³⁶ Worrying that the 1990s would be the decade in which the bills of the 1980s would come due, Time magazine reporter Otto Friedrich declared, "The past decade brought growth, avarice and an anything goes attitude"; he later glibly summarized the 1980s with five words, "get rich, borrow, spend, enjoy," and suggested that the dealings of Ivan Boesky, "the diaper king of arbitrage," epitomized the wanton ways of a whole decade.³⁷

In The Hunger for More, Laurence Shames added that "the 1980s raised the clamor for more to new heights of shrillness, insistence, and general obnoxiousness, but this, it can be argued, was in the nature of the final binge, the storm before the calm."³⁸

Supposedly, during the 1980s Americans went on a consumption binge, casting aside their historic concern for the welfare of others. The fact that the stock market was pressing 3000 by the late 1980s assured the commentators that greed was rampant, especially among the market's "paper entrepreneurs" whose dealings obscured the weakness of the underlying real economy--or so we were told.

Instead of helping others, American workers, managers, and owners became more concerned than ever with themselves--with what they could take in pay from their work and what

they could buy to promote what liberal political pundit Kevin Phillips dubbed "conspicuous opulence." American university students supposedly began mimicking their parents and their parents' friends by harboring a "single ambition--doing something that would make money."³⁹ The evidence often offered in support of the contention that the 1980s were a decade of greed includes casual references to the jump in sales of luxury automobiles, the increase in the number of people earning M.B.A.s (most of whom, presumably, set their sights on making money on Wall Street), the growth in the number of self-help books, and the number of Wall Street brokers who went to prison.

At best, the myopic focus on spectacular examples of errant behavior during the 1980s does not offer a complete picture of the whole of America, whose population numbered a quarter of a billion people by the end of the decade. At worst, it paints a warped picture of the ways Americans lived during a decade of renewed growth.

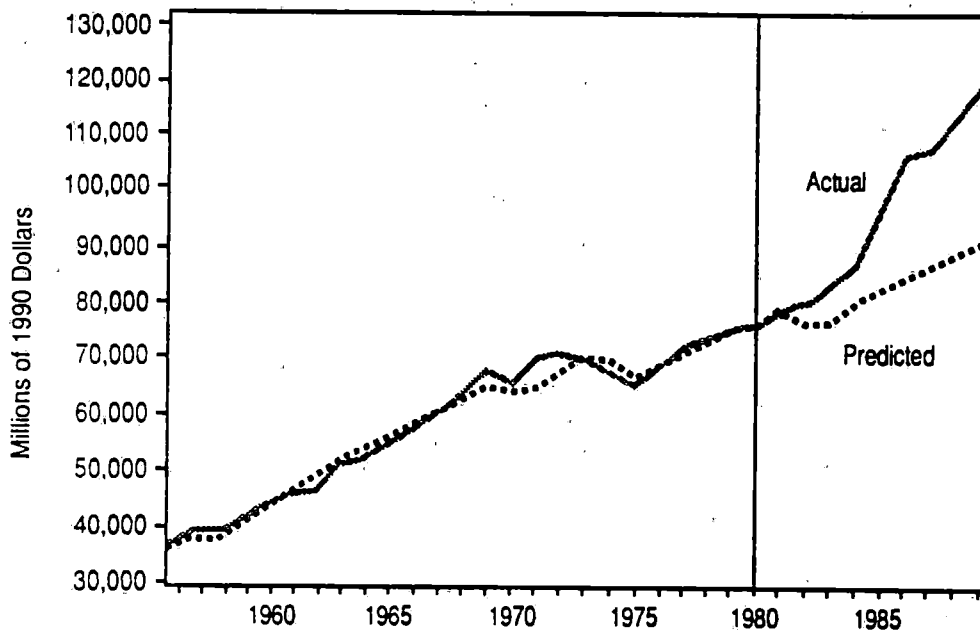
Claims of pervasive greed in the 1980s can be most easily assessed with reference to Americans' charitable contributions.⁴⁰ Such an assessment reveals that Americans have always given a modest fraction of their incomes to charitable causes. However, as the solid line in Figure 7 shows, total charitable giving (measured in 1990 dollars) in the United States continued to reach record highs throughout the 1980s.

Americans were unusually generous in the 1980s no matter how the record is measured. Total charitable contributions--by living individuals, bequests, corporations, and foundations--more than doubled from 1955 to 1980, increasing from \$34.5 billion to \$77.5 billion (in 1990 dollars), or at a compounded annual growth rate of 3.3 percent. Between 1980 and 1989 total giving in real dollars expanded by 56 percent to \$121 billion, or by a compound annual growth rate of 5.1 percent. Thus, the yearly rate of growth of total giving in the 1980s was nearly 55 percent higher than in the previous 25 years.

The pace of growth of private charitable contributions by individuals was 68 percent faster in the 1980s (5.2 percent a year) than in the 1970s and earlier years (3.1 percent a year between 1955 and 1980). And it should be noted that in the 1980s individuals increased their giving by substantially more than they increased their purchases of consumer goods in general and of a wide range of goods and services that might be considered extravagances.

Figure 7

Total Giving, Actual and Predicted, 1956-89



Sources: *Giving USA: 1990* (New York: AAFRC Trust for Philanthropy, 1990); and author's calculations.

Note: Real total giving predicted by using ordinary least squares regression equation including real GNP per capita, total government receipts as a percentage of national income, population, and time as the independent variables.

For example, the percentage increase in giving between 1980 and 1989 was 46 percent greater than the percentage rise in purchases of jewelry and watches, 58 percent greater than the percentage rise in expenditures on beauty parlors and health clubs, and 25 percent greater than the percentage rise in outstanding consumer credit. Private giving also accelerated during the 1980s while tax payments, which are frequently intended to serve charitable objectives, continued upward both in real dollars and as a percentage of national income.

Charitable contributions by corporations also rose substantially faster in the 1980s (4.1 percent a year) than in earlier decades (2.7 percent a year between 1955 and 1980). The upsurge in corporate giving occurred in the 1980s in spite of the fact that corporate before- and after-tax profits as a percentage of national income continued to decline. Indeed, corporate giving as a percentage of before-tax profits spurted upward in the 1980s and remained above the highs achieved in earlier decades. Bequests and gifts from foundations also reached record levels in the 1980s.

The same upward trend in charitable giving in the 1980s is visible when the data are adjusted for population growth. Real per capita giving by individuals rose from \$182 a person in 1955 to \$284 in 1980 and then, after the recession of 1980-81 ended, spurted to \$409 in 1989. The annual rate of growth in the 1980s was more than twice the rate in earlier decades.

Charitable giving as a percentage of national income underwent a U-turn in the late 1970s and early 1980s, switching from a declining share of national income in the 1970s to an increasing share in the 1980s. Private donations rose from a historic low of 2.1 percent of national income in 1979 to 2.7 percent in 1989.

Critics might complain that the growth in private generosity in the 1980s either was a product of the growth in income or represented a continuation of the long-term upward trend in giving. Econometric analysis of the giving data refutes that view, however. In fact, the lower dashed line in Figure 7 plots the total giving that would have been expected in the 1980s had the pattern of giving established in the 1955-80 period held true.

Annual total giving in constant dollars was, on average, more than \$14 billion, or 16 percent, higher during the 1980s than would have been predicted from the philanthropic pattern of the late 1950s, the 1960s, and the 1970s. Real individual giving averaged 18 percent above the predicted annual levels; real corporate giving was even higher, running an average 28 percent above predicted levels each year. Overall, during the so-called decade of greed, Americans increased their charitable contributions by the equivalent of one and one-half years of giving over what would have been predicted from past patterns.

Clearly, there were some well-publicized instances of conspicuous opulence during the 1980s, but greed has been around for a very long time. Claims that the 1980s were a decade of greed, painted frequently with a broad rhetorical brush, are far too sweeping, bordering on the reckless. Compared with earlier decades, the 1980s were a decade of renewed beneficence.

The "Fortunate Fifth"

In their defense of "America's misunderstood welfare state," Yale professors Theodore Marmor and Jerry Mashaw and New York attorney Philip Harvey announced that the country's "economic story is easily told."⁴¹ They tell the story

with what have come to be standard charts that show median family income first rising more or less steadily from 1947 to the early 1970s, then flattening out, and thereafter turning downward. Marmor, Mashaw, and Harvey also make confident claims about the "increasing gap between the wealthiest and the poorer segments of society" that, along with a host of other problems, "[continues] to undermine the public's sense of well-being."⁴² In the more descriptive words of Greg Duncan, Timothy Smeeding, and Willard Rodgers in a study for the Levy Institute on Income Inequality, "The rising tide of economic growth in the 1980s appears to have lifted the yachts, but neither the tugboats nor the rowboats."⁴³

Robert Reich gives the details on the growing inequality.

Controlling for family size, geography, and other changes, the best estimate . . . is that between 1977 and 1990 the average income of the poorest fifth of Americans declined by about 5 percent, while the richest fifth became about 9 percent wealthier. During these years, the average incomes of American families declined by about 7 percent, while the average income of the richest fifth of American families increased about 15 percent. That left the poorest fifth of Americans with 3.7 percent of the nation's total income, down from 5.5 percent twenty years before--the lowest portion they have received since 1954.⁴⁴

Reich reckons that, unfortunately, "routine production workers," who constitute about a fourth of all workers, and "routine personal service" providers, who constitute approximately 30 percent of the work force, have skills that can be relatively easily duplicated by lower paid workers abroad. Hence, their real wages have suffered with the advent of the global economy.⁴⁵ Many government workers and defense contractors, who, Reich figures, constitute another quarter of the labor force, may not face global competition, but their hopes for wage increases have been dashed by tightening government budgets.

Only the "most fortunate fifth" of workers, principally "symbolic analysts" who manipulate data and words, has been sheltered from foreign competition and been in sufficiently high demand to exact higher real wages, or so Reich maintains.⁴⁶ That fortunate fifth of workers--all of whom presumably have "princely incomes"--has been able to produce 40 percent of the country's output and to receive comparable incomes. Those workers, Reich concludes, are the ones who

must shoulder the burden of helping less fortunate workers with, he recommends, greater government-provided education and health care and greater expenditures on the nation's infrastructure.

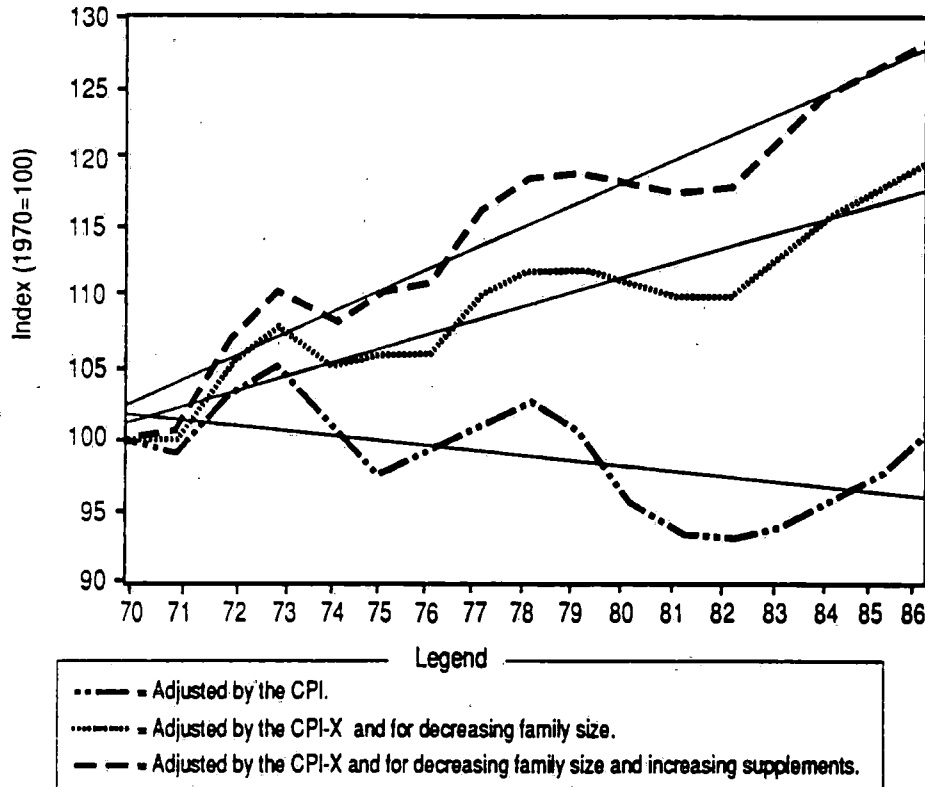
The perceived growth in income disparity has not, however, been the exclusive concern of the political left. More moderate, if not conservative, commentators have accepted the left's basic premises and facts on the nation's income distribution. New York Times business columnist Leonard Silk has declared that "there is a widespread awareness that living standards for most people have been stagnating and that life is harder for the young than it was for their parents."⁴⁷ Wall Street Journal reporter Alan Murray mused: "From 1978 to 1990, those fortunate American households in the top 5 percent of the income scale saw their average incomes increase 16 percent, after adjusting for inflation. But the people in the middle of the income scale watched their incomes fall slightly," a problem he attributes partially to "huge" tax cuts for the wealthy and Social Security tax increases on the middle and lower income classes.⁴⁸

On economic equality, Washington Post and Newsweek economics columnist Robert Samuelson has stated flatly: "There's less of it. We are more a society of haves and have nots."⁴⁹ A Business Week reporter has echoed the sentiments of those journalists, stressing that the "underlying shifts in income over the past 15 years have been seismic" and that the growing income disparity threatens long-term economic growth. "What's more, there don't seem to have been any economic benefits from the rich having gotten richer, as some economists argued in the early 1980s, when the Reagan administration first slashed taxes," a presumed major cause of the growing inequality.⁵⁰ Similarly, a Los Angeles Times labor columnist placed the blame for current economic problems on the failing "Reagan-Bush 'trickle-down,' supply-side economic policies" that have helped the rich get richer. "Already generally known is that the real income of middle-income workers continues to drop and that of the poor is plummeting, while the income of those at the top of the economic pile soars."⁵¹

Myriad versions of those claims have often been fortified with citations of official data on real median family income and on shares of income going to each of the five quintiles of households. As the bottom line in Figure 8 reveals, real median family income, adjusted for inflation using the standard CPI and set relative to the 1970 level, did trend downward from 1970 to the late 1980s.

Figure 8

Real Median Income with Adjustments for Supplements and Family Size, 1970-86



Sources: Congressional Budget Office, *Trends in Family Income: 1970-1986* (Washington: U.S. Government Printing Office, February 1988); and author's calculations.

Fortunately, the reality of the changing income distribution is far more complicated than the modern prophets of gloom would have us believe. Although rarely conceded, real median family income did begin to rebound after 1982. Moreover, that measure of the real median is defective in three key ways: (1) the method of computing the CPI was changed in 1983, the effect of which was to obscure the growth in real income (or to accentuate the decline); (2) the average family size fell by 17 percent between 1970 and 1986; and (3) fringe benefits and other wage supplements, which are not counted as family income, expanded from 12 percent of total wages and salaries in 1970 to 20 percent in 1986 (the latest year for which adjusted data are available).

Researchers at the Congressional Budget Office have determined that when real median income is recomputed with the CPI-X and adjusted for the economies associated with

smaller families, real median family income trends upward, rising by 20 percent between 1970 and 1986. (See the middle set of lines in Figure 8.) When real median income is further adjusted to account, in a rough way, for the growth in nonwage income, the rise during that period may be over 28 percent.

Although such revised data seriously undercut the critics' empirical props, they have a ready-made comeback: the median rose only because the rising economic tide "lifted the yachts, but neither the tugboats nor the rowboats."

Critics do have some of the facts on changing income distribution right. The share of total income going to the quintile of households with the lowest incomes did fall from 4.1 percent in 1970 to 3.9 percent in 1990 (after reaching 4.2 percent in 1980), and the share of income received by the middle three quintiles fell from 52.7 percent in 1970 to 49.5 percent in 1990. At the same time, the quintile of households with the highest incomes rose relatively rapidly during the 1970s and 1980s; their share of income rose from 43.3 percent in 1970 to 46.6 percent in 1990.

The data do offer the surface appearance of a "most fortunate fifth." But appearances are deceiving. Census Bureau data reveal that the real mean incomes (adjusted only for inflation by the CPI-X) of every quintile of households trended upward during the 1970s and 1980s.⁵² Those data alone indicate that it is grossly misleading to suggest that changes in income distribution were "seismic," or that the poor as a group got poorer, or that only the "most fortunate fifth" gained over the past two decades or even the last decade.

Critics of changing income distribution delight in comparing current real household incomes of the quintiles with the peak achieved in 1973, before the first oil-supply shock that helped throttle income growth for the rest of the decade. They stress that the real income of the lowest two quintiles fell between 1973 and the late 1980s, but they rarely note the flaw in the price index or the need to make other adjustments for decreasing household size and increasing nonwage benefits. In addition, the relatively strong growth in real household income in the middle and late 1980s is never mentioned, mainly because such an acknowledgement would undercut the simplistic claim that the downward trend was all Ronald Reagan's fault.

Even if no other adjustments are made, using the CPI-X as the deflator reveals that the average incomes of the

lowest two quintiles of households actually rose between 1973 and 1989 (just before the current recession) by 4.7 percent and 4 percent, respectively. However, between 1983 and 1989 the average income of the lowest quintile rose 11.1 percent, while the average income of the second quintile rose by 10.1 percent. The average income of the middle and fourth quintiles expanded by 10.7 percent and 11.6 percent, respectively, during the 1983-89 period.

Granted, the average real income of the top quintile rose by much more, 18.8 percent, but it is naive to assume that the top quintile is an exclusive club. It is in fact composed of changing collections of households with changing collections of household members operating under continually changing conditions. Students who were in school in the early 1980s, for example, had jumped several quintiles by the end of the decade simply by taking their first jobs or by marrying people with incomes. The very limited research done on the subject suggests that a sizable share--surely a third and possibly half--of the households in the top quintile at the end of the 1980s had been in a lower quintile in earlier years.⁵³

Moreover, the nature of the quintiles of households ensures that the top quintile often grows more rapidly than the lower ones. People in the top quintile who increase their productivity and hours of work, marry (or stay married), or decide to have a nonworking spouse or family member go to work (nearly 90 percent of the households in the top quintiles have two or more income earners, a far higher percentage than found in the lower quintiles) automatically raise their quintile's mean household income. Those people cannot move to a higher category. People in any of the lower quintiles who do the same can easily move up one or more quintiles, increasing their own welfare but, in the process, reducing the mean income of their former quintile.

Overall, the critics have been right in stressing that the rich have gotten richer, but they are way off base in suggesting that the rich were rich during all of the 1980s, or that they became richer at the expense of the rest of the population, or that their riches were all ill-gotten or undeserved. It is far more accurate to say that in the 1980s many rich and not-so-rich Americans got richer faster than other Americans. Some Americans in all quintiles fell behind. Each end of the income distribution scale was contributing to the economic improvement of the other.

Was the federal tax burden redistributed during the decade? The answer is both yes and no, depending on the data series cited and which taxes are included. Federal

income tax rates were lowered across the board, but many exemptions were eliminated. At the same time, Social Security taxes, which tend to be particularly onerous to lower income groups, were persistently raised; higher and higher rates were paid by both employees and employers on gradually higher incomes. On balance, when all federal taxes collected directly from individuals are considered, the tax burden on families with the lowest incomes went from 8.1 percent of their incomes in 1980, to 10.3 percent in 1985, to 9.3 percent in 1988, to 8.6 percent in 1992.⁵⁴ The second lowest fifth stayed within the narrow range of 15.6 to 15.9 percent in those years. Similarly, the middle fifth stayed within the narrow range of 19.1 to 19.8 percent, with no apparent up or down trend over the 1980-92 period. The second highest fifth declined slightly from 22.9 percent in 1980, to 22.4 percent in 1988, to 22.2 percent in 1992. The average for the highest fifth fell from 27.5 percent in 1980 to 24.1 percent in 1985, but it then trended upward to 26 percent in 1988 and to 26.8 percent in 1992.⁵⁵

Throughout the decade real federal tax collections trended upward in absolute terms. They represented 19.4 percent of gross national product in 1980 and 19.6 percent in 1990 (after falling to 18.1 percent in 1984). Each of the lowest four quintiles of families tended to cover a slightly shrinking share of the growing tax burden. The share of all federal taxes paid by the lowest quintile of families went from 1.6 percent in 1980 to 1.3 percent in 1992. The share of the second quintile dropped from 6.9 to 6.0 percent between 1980 and 1992. The middle quintile's share dropped from 13.2 to 12.1 percent. The fourth quintile's share dropped from 22.1 to 20.0 percent. On the other hand, the share paid by the highest quintile of families rose from 56.1 percent in 1980 to 60.5 percent in 1992, mainly because of that quintile's relative income growth.⁵⁶

Clearly, over the past two decades the country has experienced a host of economic problems, one of the most important of which is decreasing real wages for some groups. Although the available data do not permit an exact determination of how many Americans lost economic ground during the last two decades, it is clear that critics have grossly exaggerated the economic hardship visited on the vast majority of Americans. Furthermore, the critics do not seem to realize that many of the observed changes in real wages have been instructive. They have caused people to learn from their experience and to take corrective action--without directives from Washington.

Conclusion

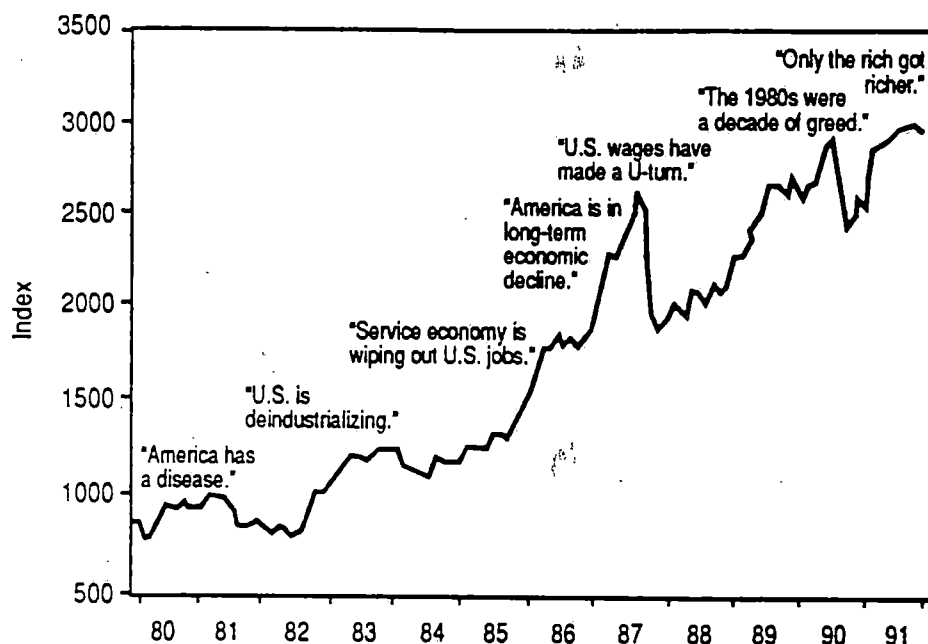
Hoover Institution economist Thomas Sowell is reported to have once quipped that "reality is tricky." Indeed, it is. Regrettably, a host of critics of the 1980s have played tricks on their audiences by pretending that reality is simple. Most of those critics have had some of the facts correct. Otherwise, they would never have been taken seriously. The mistake they have made all too often is not getting all of the facts and pretending that their limited arsenal of facts tells the whole story of the 1980s. They have managed, however, to distort the impression many Americans have of the recent times through which they have lived. Correcting distorted impressions is crucial; the course of public policy hinges on it.

A far more reasoned view is that the economy continued to expand during the 1980s and reached a peak in 1990. The recession, of course, has since caused production and income growth to falter. More ominously, it has given new life to the Chicken Littles, who continue to be taken seriously by many of our Washington leaders and who continue to predict that in the 1990s the country will follow its long-charted path of decline. At the same time, the stock market marches upward, albeit irregularly. In April 1992 the Dow Jones Industrial Average was reaching new peaks just under 3,400, nearly four times the daily average of January 1980--an expansion factor not achieved since World War II. As is shown in Figure 9, the stock market tended to pay little heed to the claims of gloom and doom. Perhaps part of the rise in the market was fueled by speculation. Perhaps. But a careful reading of what went on during the 1980s indicates that there was more substance to the charted stock market gains than many critics may like to believe.

The 1980s were not the best of times; they could have been better. But neither were they the worst of times, as we have too often been wrongfully told. They were a decade when the Chicken Littles of policy circles invariably followed their grossly distorted warnings of economic calamity with preconceived prescriptions for relief that seemed to direct, rather than to be derived from, their analyses: greater federal involvement in the economic affairs of Americans, more federal regulations and management of internal and external trade, and expanded federal planning.

Figure 9

Dow Jones Industrial Average, Monthly, 1980-91, Juxtaposed with Dismal Predictions



Source: CITIBASE: Citibank economic database (machine-readable magnetic tape file), 1946-present (New York: Citibank, N.A., 1991).

Fortunately, the reality of the 1980s failed to match the dismal predictions, and with the whole of Eastern Europe and the republics of the former Soviet Union seeking to escape from the clutches of government control, the Chicken Littles' social agenda remains a vision in search of empirical justification.

Notes

1. Robert Kuttner, "Supply-Side Turkey Comes Home to Roost," Los Angeles Times, October 14, 1991, p. B9.
2. Hobart Rowen, "Abdication of the Democrats," Washington Post National Weekly, March 2-8, 1992, p. 5.
3. For an extended commentary on deindustrialization, see Richard B. McKenzie, Competing Visions: The Political Conflict over America's Economic Future (Washington: Cato Institute, 1985); and Richard B. McKenzie, The American Job Machine (New York: Universe Books, 1988).

4. George C. Lodge, The American Disease (New York: Knopf, 1984), p. 3.
5. Ibid., p. 5.
6. Barry Bluestone, "Industrial Dislocation and the Implications for Public Policy," Paper prepared for the third annual policy forum on employability development, "Displaced Workers: Implications for Educational and Training Institutions," sponsored by the National Center for Research in Vocational Education, Ohio State University, held in Washington, September 12-13, 1983, p. 3.
7. Barry Bluestone and Bennett Harrison, The Deindustrialization of America (New York: Basic Books, 1984).
8. Robert B. Reich, The Next American Frontier (New York: Times Books, 1983), p. 3.
9. Andrew M. Warner, "Does World Investment Determine American Exports?" Working paper, Federal Reserve Board of Governors, Washington, January 1992, pp. 18, 19.
10. Stephen S. Cohen and John Zysman, Manufacturing Matters: The Myth of the Post-Industrial Economy (New York: Basic Books, 1987), p. 3.
11. John F. McGillicuddy, "The Corporate Pulpit," Corporate Board: The Journal of Corporate Governance, July/August 1987, p. 1.
12. "Getting America Moving Again," Editorial, Christian Science Monitor, January 20, 1987.
13. See Mack Ott, "The Growing Share of Services in the U.S. Economy--Degeneration or Evolution?" Federal Reserve Bank of St. Louis Review, June/July 1987, p. 15.
14. Kenichi Ohmae, "No Manufacturing Exodus, No Great Come-back," Wall Street Journal, April 25, 1988, p. 26.
15. The rate of growth is computed for the 1980-89 period because of a precipitous \$700 billion decline in real private net worth between 1989 and 1990 that may prove temporary and a reflection of the recession. Similarly, the rate of growth for the 1960s may be somewhat distorted by the falloff in net worth after 1968. The compound rate of growth was 4.03 percent in the 1960-68 period and 3.06 percent in the 1960-72 period.

The compound rates of growth in net worth per capita were, of course, lower for all decades, but the rate of growth for the 1980-89 period was higher than for the previous two decades: 2.42 percent for 1980-89, 1.95 percent for the 1970s, and 1.4 percent for the 1960s. The data on private net worth are from the Federal Reserve's Balance Sheet, as reported in the Council of Economic Advisers, Economic Report of the President: 1992 (Washington: U.S. Government Printing Office, February 1992), p. 423.

16. Greg J. Duncan, Timothy M. Smeeding, and Willard Rodgers, "Whither the Middle Class? A Dynamic View," Paper presented at the Levy Institute conference on Income Inequality, Bard College, June 18-20, 1991.

17. For more details on this issue, see Richard B. McKenzie, The Decline of America: Myth or Fact? (St. Louis: Center for the Study of American Business, November 1988).

18. Daniel A. Sharp, "America Is Running Out of Time," New York Times, February 7, 1988; reprinted in The World Trade Imbalance: When Profit Motives Collide (Washington: U.S. Department of State, Executive Council on Foreign Diplomats, 1988), p. 25.

19. Joel Kurtzman, The Decline and Crash of the American Economy (New York: W. W. Norton, 1988), p. 212.

20. Ibid., p. 25.

21. Benjamin M. Friedman, Day of Reckoning: The Consequences of American Economic Policy (New York: Vintage Books, 1988), p. 300.

22. David. P. Calleo, Harold van B. Cleveland, and Leonard Silk, "The Dollar and the Defense of the West," Foreign Affairs 66, no. 4 (Spring 1988): 860-61.

23. Paul Kennedy, The Rise and Fall of Great Powers: Economic Change and Military Conflict from 1500 to 2000 (New York: Random House, 1987).

24. Kennedy admits that he is not arguing that economics is the sole cause of the rise and decline of great powers: "There simply is too much evidence pointing to other things: geography, military organization, national morale, the alliance system, and many other factors can all affect the relative power of members of the states system. . . . What does seem incontestable, however, is that in a long-run-drawn-out Great Power (and usually coalition) war, victory has repeatedly gone to the side with the more flourishing productive

base--or, as the Spanish captains used to say, to him who has the last escudo." Ibid., p. xxiv.

25. Ibid., pp. 413-37.

26. Ibid., p. 432. As his primary source for data on world production shares, Kennedy cites P. Bairoch, "International Industrialization Levels from 1750 to 1980," Journal of European Economic History 11 (1980): 304. Kennedy also points out that Central Intelligence Agency figures show that the U.S. share of world output dropped from 25.9 percent in 1960 to 21.5 percent in 1980. Central Intelligence Agency, Handbook of Economic Statistics (Washington: U.S. Department of Commerce, National Technical Information Service, 1984), p. 4. However, he acknowledges that CIA figures may be influenced by exchange rate considerations. Kennedy, p. 608 n. 248.

27. Ibid.

28. Ibid., p. 534.

29. See Richard B. McKenzie, The "Great U-Turn": Another Economic Myth or New Economic Reality? (Washington: U.S. Congress, Joint Economic Committee, November 1987); or Richard B. McKenzie, The Mythical "Great U-Turn" in Worker Wages (St. Louis: Center for the Study of American Business, Washington University, February 1990).

30. Bennett Harrison and Barry Bluestone, The Great U-Turn: Corporate Restructuring and the Polarizing of America (New York: Basic Books, 1988).

31. Ibid., p. 3.

32. Ibid., p. 20. See also Isaac Shapiro and Robert Greenstein, Selective Prosperity: Increasing Income Disparities since 1977 (Washington: Center on Budget and Policy Priorities, July 1991).

33. See Bluestone and Harrison, The Great U-Turn, Figure 1.1, p. 6. The authors actually cite "real average weekly earnings," which has a more pronounced "U" than real average worker wages, primarily because of the downward trend in the number of hours worked per week. However, it needs to be stressed that the downward trend has been in evidence for most of this century, if not much longer.

Bluestone and Harrison also chart "median family income," which rose in the 1950s and 1960s and then leveled off, with ups and downs, in the 1970s. Many of the criti-

cisms of Bluestone and Harrison's use of average worker pay apply with equal force to median family income. Indeed, use of median family income can be more misleading. A portion of the reduction in the growth of family income can be attributed to the reduction in family size, which in turn is related to the aging of the population and the increase in the divorce rate.

Bluestone and Harrison cite government data on the turnaround in the gradual reduction in the "poverty rate," or the percentage of Americans below the "poverty threshold" income level, and their own data on the "polarization" of Americans, or the growing disparity in the incomes of high- and low-wage earners (resulting in what they describe as a "missing middle" to the nation's income distribution). The issue of growing poverty was critiqued by Edgar K. Browning in his presidential address to the Southern Economics Association, "Inequality and Poverty," Southern Economic Journal (April 1989): 819-30. The issue of the "missing middle" has been addressed by a variety of economists, in and out of government, including Neal H. Rosenthal, "The Declining Middle Class: Myth or Reality?" Monthly Labor Review, March 1985, pp. 3-10; and Patrick J. McMahon and John H. Tschetter, "The Declining Middle Class: A Further Analysis," Monthly Labor Review, September 1986, pp. 22-27. Points made by McMahon and Tschetter about the movement of average real wages apply with greater force to Bluestone and Harrison's conclusions drawn from the presumed turnaround in real median family income.

34. Before 1983 the consumer price index incorrectly assessed the change in the cost of living because changes in the asset prices of houses, per se, were included. If the price of new homes went up by 10 percent, then the CPI would include that information (after properly weighing housing for its importance in people's budgets). However, most people who own their own homes do not experience increases in their "cost of living" in line with increases in the market prices of houses. As a consequence, many economists reasoned that the CPI overstated the rise in the cost of living, and that defect was getting worse as inflation accelerated in the 1960s and 1970s. Use of the CPI, especially in times of relatively rapid inflation, such as the 1970s, in adjusting wages for inflation understates the rise (or overstates the decline) in real worker wages. Officials at the Bureau of Labor Statistics concluded that a "better" way to figure changes in the cost of living from changes in housing costs was to measure changes in the monthly rental payments for housing (not in the prices of the houses themselves). CPI reports published since 1983 use the new method. However, the widely used CPIs from before 1983 remain

wedded to the old "defective" method of assessing housing costs.

35. For discussions of how the "average wage" (and many other statistics) is measured by the BLS, see U.S. Department of Labor, Bureau of Labor Statistics, BLS Handbook of Methods (Washington: U.S. Government Printing Office, Bulletin no. 2285, April 1988).

36. For more details, see Richard B. McKenzie, Was the Decade of the 1980s a "Decade of Greed"? (St. Louis: Center for the Study of American Business, Washington University, July 1991); or Richard B. McKenzie, "Were the 1980s a 'Decade of Greed'?" Public Interest, January 1992, pp. 91-96.

37. Otto Friedrich, "Freed from Greed?" Time, January 1, 1990, pp. 76-77.

38. Laurence Shames, The Hunger for More: Searching for Values in an Age of Greed (New York: Vantage Books, 1991), p. 27.

39. Kevin Phillips, The Politics of the Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath (New York: Random House, 1990), p. 43; emphasis in the original.

40. This analysis uses data from Giving USA: 1990 (New York: American Association of Fund Raising Council Trust for Philanthropy, 1990). Other data sources for charitable contributions (namely, the Independent Sector and the U.S. Bureau of Labor Statistics) provide similar, but slightly different, pictures of giving during the 1980s. For a graphic summary of several sources, see "The Demographics of Giving," American Enterprise, September/October 1991, pp. 101-4.

41. Theodore R. Marmor, Jerry L. Mashaw, and Philip L. Harvey, America's Misunderstood Welfare State: Persistent Myths, Enduring Realities (New York: Basic Books, 1991), p. 8. For more details, see Richard B. McKenzie, The "Fortunate Fifth" Fallacy (St. Louis: Washington University, Center for the Study of American Business, March 1992).

42. Marmor, Mashaw, and Harvey, p. 8.

43. Duncan, Smeeding, and Rodgers, p. 7.

44. Robert B. Reich, The Work of Nations: Preparing Ourselves for 21st-Century Capitalism (New York: Vantage Books, 1992), p. 197, cites U.S. Bureau of the Census work on the

Current Population Survey and Bureau of Labor Statistics work on the Consumer Expenditure Survey. More specifically, he cites Congressional Budget Office, The Changing Distribution of Federal Taxes, 1977-1990 (Washington: U.S. Government Printing Office, February 1987); and U.S. House of Representatives, Ways and Means Committee, Tax Progressivity and Income Distribution (Washington: U.S. Government Printing Office, March 26, 1990).

45. Robert B. Reich, "U.S. Income Inequality Keeps on Rising: As the World Turns," New Republic, May 1, 1989, pp. 23-28.

46. Ibid., p. 28.

47. Leonard Silk, "Economic Scene: Why Fiscal Policy Has to Have Soul," New York Times, December 6, 1991, p. C2.

48. Alan Murray, "Tax Cuts the Answer? What's the Question?" Wall Street Journal, October 28, 1991, p. A1.

49. Robert J. Samuelson, "The Fragmenting of America," Washington Post National Weekly, August 12-18, 1991, p. 29.

50. Karen Pennar, "The Rich Are Richer--And America May Be the Poorer," Business Week, November 18, 1991, 85-86.

51. Harry Bernstein, "Surge in Part-Time Workers Ominous," Los Angeles Times, December 10, 1991, p. D3.

52. For details, see McKenzie, The "Fortunate Fifth" Fallacy.

53. For data on income mobility, see Bruce Bartlett, "A Class Struggle That Won't Stay Put," Wall Street Journal, November 20, 1991, p. A16. Very similar, but not identical, statistical shifts are reported in U.S. Congress, Joint Economic Committee, "Income Mobility and the U.S. Economy: Open Society or Caste System?" Prepared for Rep. Richard K. Armey, December 30, 1991. The JEC staff used Bureau of the Census data as reported in U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-70, no. 18: Transition in Income and Poverty: 1985-1986 (Washington: U.S. Government Printing Office, 1990); and U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-70, no. 24: Transition in Income and Poverty: 1987-1988 (Washington: U.S. Government Printing Office, 1990). See also Greg J. Duncan, Years of Poverty, Years of Plenty (Ann Arbor: University of Michigan, Institute for Social Research, Survey Research Center, 1984), p. 13.

54. Council of Economic Advisers, Economic Report of the President: 1992, p. 141. The estimates are based on Congressional Budget Office calculations, which are given only for the years mentioned here.

55. Ibid.

56. Ibid.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6/24/92 ACTION/CONCURRENCE/COMMENT DUE BY: ----
 CEA NUMBERS -- ADVANCE DURABLE GOODS IN MAY, COMMERCE DEPARTMENT
 SUBJECT: RELEASE

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☐	PORTER	☐	☒
BROMLEY	☐	☒	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒		☐	☐
FITZWATER	☐	☒		☐	☐
GRAY	☐	☒		☐	☐
HOLIDAY	☐	☒		☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 24, 1992

2 JUN 24 A8:41

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *myb*

SUBJECT: Advance Durable Goods in May, Commerce Department Release, This Morning, 8:30 a.m.

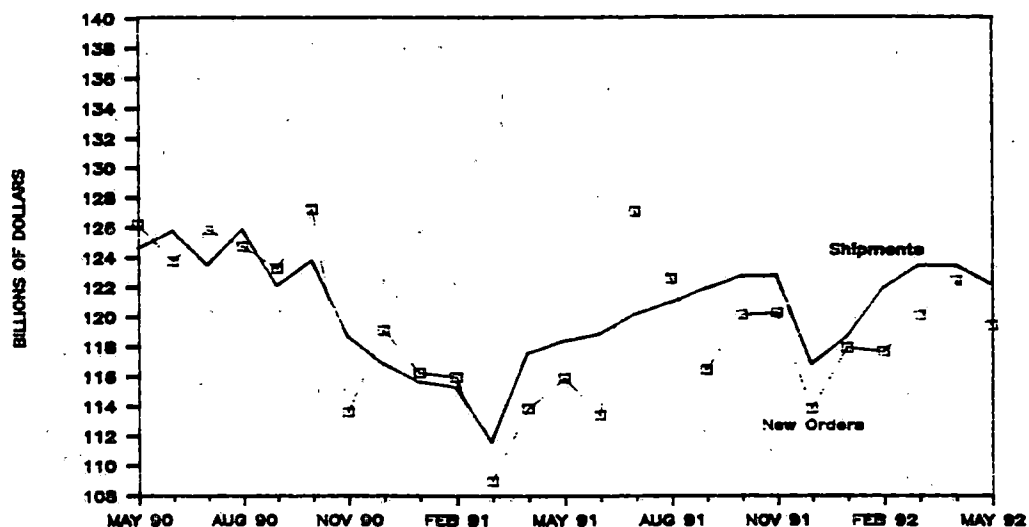
New orders for durable goods fell 2.4 percent in May after rising 1.9 percent in April. Private analysts had expected an increase of 0.9 percent in May, not a decrease.

The decrease in May can be accounted for by declines in orders for aircraft and parts and in defense capital goods. Excluding these items, orders rose 0.7 percent.

Shipments of durable goods fell 1.0 percent in May, after remaining flat in April. Shipments of nondefense capital goods--a key measure of producer durable equipment investment--also fell 1.0 percent in May, after falling 3.3 percent in April.

The graph below shows that new orders for durable goods have been volatile over the past year. For the past 9 months, new orders have been less than shipments. As a result, unfilled orders have been declining, and are now at their lowest level since May 1989.

DURABLE GOODS ORDERS & SHIPMENTS



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 22--26

June 24, 1992

Today the Department of Commerce reported that new orders for manufactured durable goods fell 2.4 percent in May, after increasing 1.9 percent in April. Private analysts had expected an increase of 0.9 percent. Shipments of durable goods decreased 1.0 percent in May, after remaining flat in April.

Thursday, the Commerce Department will release the final estimates for real gross domestic product (GDP) for the first quarter of 1992. Private analysts expect a 2.4 percent (annual rate) increase--the same as the growth rate reported in last month's preliminary estimate. On Friday, the Commerce Department will release data on personal income and personal consumption expenditures for May. Private analysts expect both income and expenditures to rise 0.4 percent.

DATA RELEASED THIS WEEK:

New orders for durable goods fell 2.4 percent in May after rising 1.9 percent in April. The decrease in May can be accounted for by declines in orders for aircraft and parts and in defense capital goods. Excluding these items, orders rose 0.7 percent. Shipments of durable goods fell 1.0 percent in May, after remaining flat in April. **(Embargoed until 8:30 a.m., 6-24-92)**

TO BE RELEASED THIS WEEK:

Release

Median Market Expectation

Q-I GDP (Rev.)
(released 6-25-92)

Real GDP

2.4 percent

GDP Deflator

3.1 percent

Personal Income & Spending (May)
(released 6-26-92)

Income

up 0.4 percent

Spending

up 0.4 percent

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6/24/92 ACTION/CONCURRENCE/COMMENT DUE BY: ----

CEA NUMBERS -- ADVANCE DURABLE GOODS IN MAY, COMMERCE DEPARTMENT
RELEASE

SUBJECT: _____

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☐	PORTER	☐	☒
BROMLEY	☐	☒	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒	_____	☐	☐
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
Assistant to the President
and Staff Secretary
Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 24, 1992

2 JUN 24 A8:41

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *mb*

SUBJECT: Advance Durable Goods in May, Commerce Department Release, This Morning, 8:30 a.m.

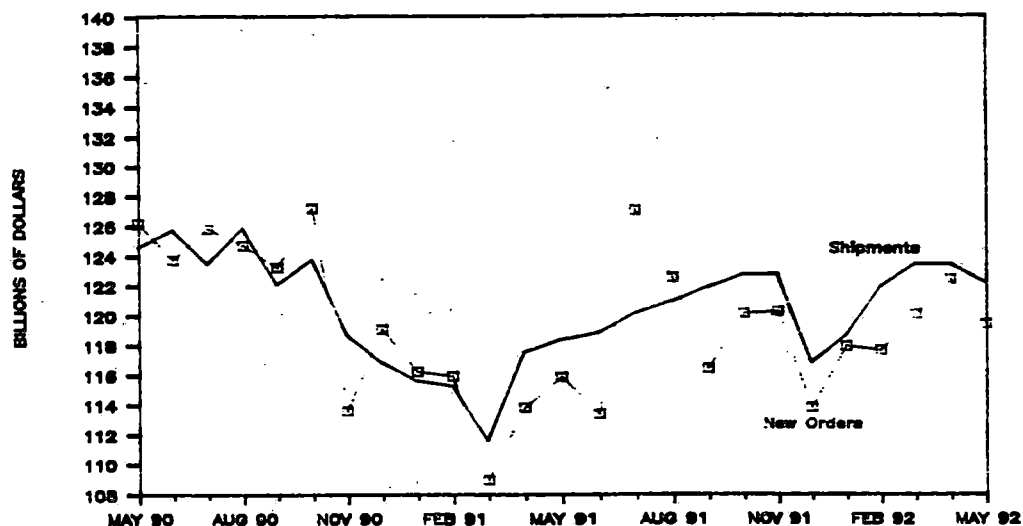
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The decrease in May can be accounted for by declines in orders for aircraft and parts and in defense capital goods. Excluding these items, orders rose 0.7 percent.

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The graph below shows that new orders for durable goods have been volatile over the past year. For the past 9 months, new orders have been less than shipments. As a result, unfilled orders have been declining, and are now at their lowest level since May 1989.

DURABLE GOODS ORDERS & SHIPMENTS



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 22--26

June 24, 1992

Today the Department of Commerce reported that new orders for manufactured durable goods fell 2.4 percent in May, after increasing 1.9 percent in April. Private analysts had expected an increase of 0.9 percent. Shipments of durable goods decreased 1.0 percent in May, after remaining flat in April.

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TO BE RELEASED THIS WEEK:

Release

Median Market Expectation

Q-I GDP (Rev.)
(released 6-25-92)

Real GDP

2.4 percent

GDP Deflator

3.1 percent

Personal Income & Spending (May)
(released 6-26-92)

Income

up 0.4 percent

Spending

up 0.4 percent

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6/18/92 ACTION/CONCURRENCE/COMMENT DUE BY: ---

CEA NUMBERS -- MERCHANDISE EXPORTS AND IMPORTS IN APRIL,
 SUBJECT: COMMERCE DEPARTMENT RELEASE

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☐	PORTER	☐	☒
BROMLEY	☐	☒	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒	_____	☐	☐
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 18, 1992

2 JUN 18 A8:50

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *MB*
SUBJECT: Merchandise Exports and Imports in April, Commerce
Department Release, This Morning, 8:30 a.m.

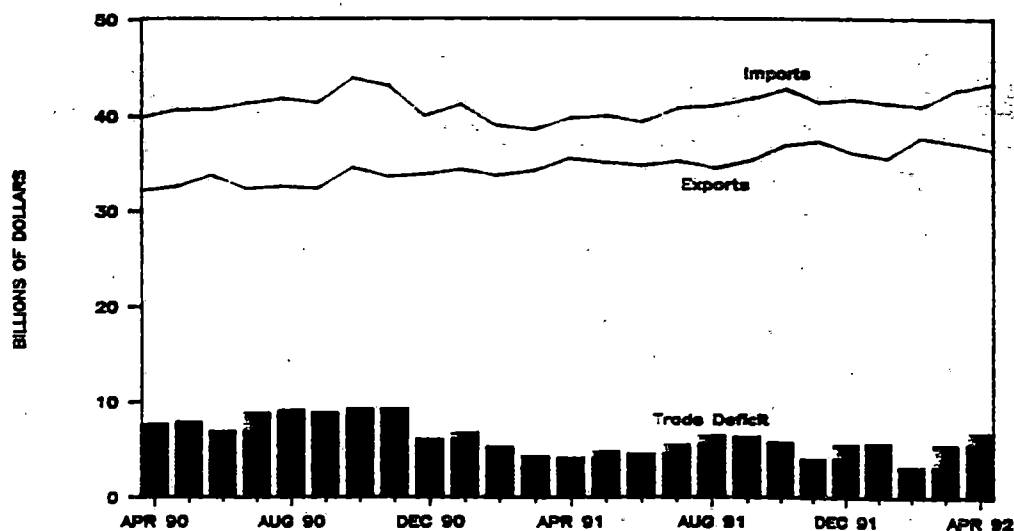
The merchandise trade deficit increased in April to \$7.0 billion, the highest monthly deficit in nearly a year and a half. In March, the deficit was \$5.6 billion. Private analysts had expected the trade deficit to narrow in April to \$5.5 billion.

Merchandise exports fell 1.9 percent in April. Export performance was mixed across the principal end-use categories. The largest decline occurred for nonautomotive capital goods and the largest increase occurred for foods, feeds, and beverages.

Merchandise imports rose 1.6 percent in April. Import performance also was mixed, with imports of industrial supplies and materials rising strongly, and imports of "other" merchandise showing a significant decline.

The graph below shows that the merchandise trade deficit has been on an upswing in recent months, after hitting a nine-year low in February. If the larger deficit continues, it would have a significant negative effect on real GDP in the second quarter.

MERCHANDISE EXPORTS AND IMPORTS



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 15--19

June 18, 1992

Today the Department of Commerce reported that the merchandise trade deficit jumped to \$7 billion in April from \$5.6 billion in March. Merchandise exports fell nearly 2 percent and imports rose 1.6 percent. If the larger trade deficit continues, it would have a significant negative effect on real GDP in the second quarter.

Yesterday the Department of Labor reported that nonfarm business productivity rose strongly in the first quarter--at a 2.7 percent annual rate. In the manufacturing sector, however, productivity fell at a 1 percent rate.

Two releases on Tuesday showed strong construction and production activity in the economy in May. The Commerce Department reported that housing starts rose 11 percent in May, a stronger-than-expected increase. The increase in May partially reversed April's decline of more than 17 percent. Starts have been on an upward trend since January of last year. Separately, the Federal Reserve reported that industrial production--the output of the Nation's factories, mines, and utilities--rose for the fourth consecutive month in May.

DATA RELEASED THIS WEEK:

The merchandise trade deficit increased in April to \$7.0 billion, the highest monthly deficit in nearly a year and a half. Private analysts had expected the trade deficit to narrow to \$5.5 billion. (Embargoed until 8:30 a.m., 6-18-92)

Productivity in the nonfarm business sector rose 2.7 percent at an annual rate in the first quarter. In manufacturing, productivity fell at a 1 percent rate.

Housing starts rose 11 percent in May to an annual rate of 1.230 million. Private analysts had expected a smaller increase of 4.9 percent in May. The larger-than-expected increase in starts in May followed the surprisingly large decline of over 17 percent in April. Building permits--often an indicator of future housing starts--fell slightly in May.

Industrial production increased 0.6 percent in May, the fourth consecutive monthly increase. Private analysts had expected a 0.5 percent increase in May. For all industry, capacity utilization rose to 79.0 percent in May from 78.7 percent in April. In manufacturing, capacity utilization rose to 78.1 percent in May.

The U.S. current-account balance was a deficit of \$5.3 billion in the first quarter of 1992, compared to \$7.2 billion in the fourth quarter of 1991.

WHITE HOUSE STAFFING MEMORANDUM

6/17/92

DATE: _____ ACTION/CONCURRENCE/COMMENT DUE BY: _____

CEA NUMBERS -- PRODUCTIVITY AND COSTS, FIRST QUARTER 1992,
LABOR DEPARTMENT RELEASE

SUBJECT: _____

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☐	PORTER	☐	☒
BROMLEY	☐	☐			
CALIO	☐	☒	SMITH	☐	☒
DEMAREST	☐	☒	YEUTTER	☐	☒
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 17, 1992

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *MB*

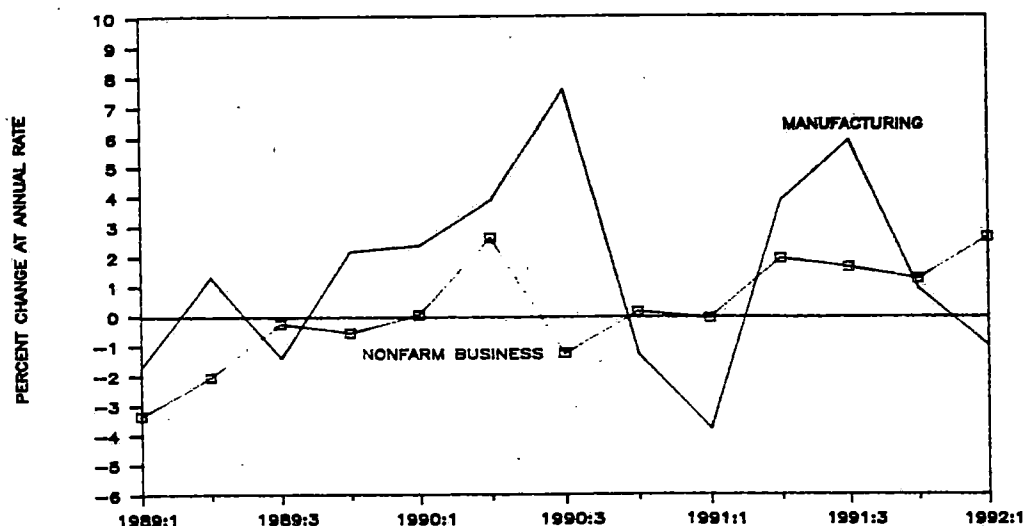
SUBJECT: Productivity and Costs, First Quarter 1992, Labor Department Release, This Morning, 10:00 a.m.

Productivity in the nonfarm business sector rose 2.7 percent at an annual rate in the first quarter of 1992. The increase in productivity was attributable to a 1.2 percent rate of increase in output and a 1.5 percent rate of decline in hours worked. For the manufacturing sector, productivity fell at a 1 percent rate, as the decline in output exceeded the decline in hours worked.

Hourly compensation in the nonfarm business sector rose 2.2 percent at an annual rate in the first quarter of 1992; in manufacturing, hourly compensation fell at a 1.9 percent rate.

The graph below shows that nonfarm business productivity has increased steadily over the past year, following the low or negative changes that predominated in the previous 2 years. Manufacturing productivity has been more volatile, showing strong increases in the middle of last year, before slipping back early this year.

CHANGES IN PRODUCTIVITY



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 15--19

June 17, 1992

Today the Department of Labor reported that nonfarm business productivity rose strongly in the first quarter--at a 2.7 percent annual rate. In the manufacturing sector, however, productivity fell at a 1 percent rate.

Two releases yesterday showed strong construction and production activity in the economy in May. The Commerce Department reported that housing starts rose 11 percent in May, a stronger-than-expected increase. The increase in May partially reversed April's decline of more than 17 percent. Starts have been on an upward trend since January of last year. Separately, the Federal Reserve reported that industrial production--the output of the Nation's factories, mines, and utilities--rose for the fourth consecutive month in May.

Tomorrow the Department of Commerce will release data on merchandise trade for April. Private analysts expect the trade deficit to narrow slightly.

DATA RELEASED THIS WEEK:

Productivity in the nonfarm business sector rose 2.7 percent at an annual rate in the first quarter of 1992. For the manufacturing sector, productivity fell at a 1 percent rate. **(Embargoed until 10:00 a.m., 6-17-92)**

Housing starts rose 11 percent in May to an annual rate of 1.230 million. Private analysts had expected a smaller increase of 4.9 percent in May. The larger-than-expected increase in starts in May followed the surprisingly large decline of over 17 percent in April. Building permits--often an indicator of future housing starts--fell slightly in May.

Industrial production increased 0.6 percent in May, the fourth consecutive monthly increase. Private analysts had expected a 0.5 percent increase in May. For all industry, capacity utilization rose to 79.0 percent in May from 78.7 percent in April. In manufacturing, capacity utilization rose to 78.1 percent in May.

The U.S. current-account balance was a deficit of \$5.3 billion in the first quarter of 1992, compared to \$7.2 billion in the fourth quarter of 1991.

TO BE RELEASED THIS WEEK:

Release

Merchandise Trade Balance (April)
(released 6-18-92)

Median Market Expectation

-\$5.5 billion



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 16, 1992

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *mjb*

SUBJECT: Industrial Production and Capacity Utilization in May, Federal Reserve Release, Today, 9:15 a.m.

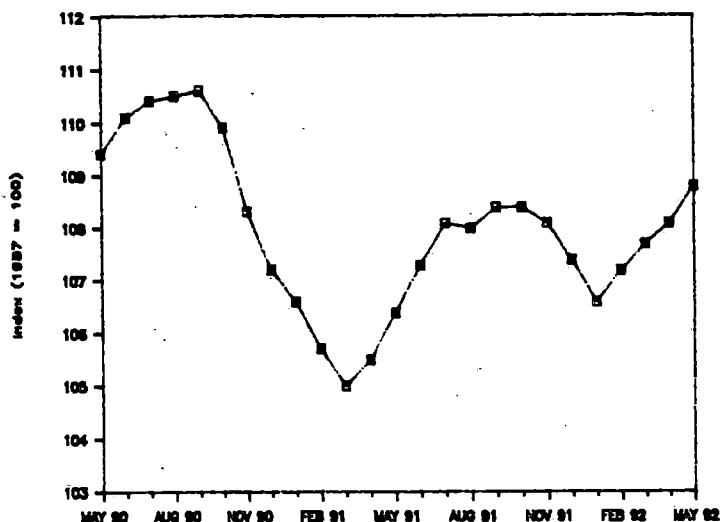
Industrial production--the output of the Nation's factories, mines, and utilities--increased 0.6 percent in May, the fourth consecutive monthly increase. Private analysts had expected a 0.5 percent increase in May.

Manufacturing production increased 0.7 percent in May, with production of motor vehicles and parts rising 3.8 percent. Mining and utilities production fell 0.3 percent.

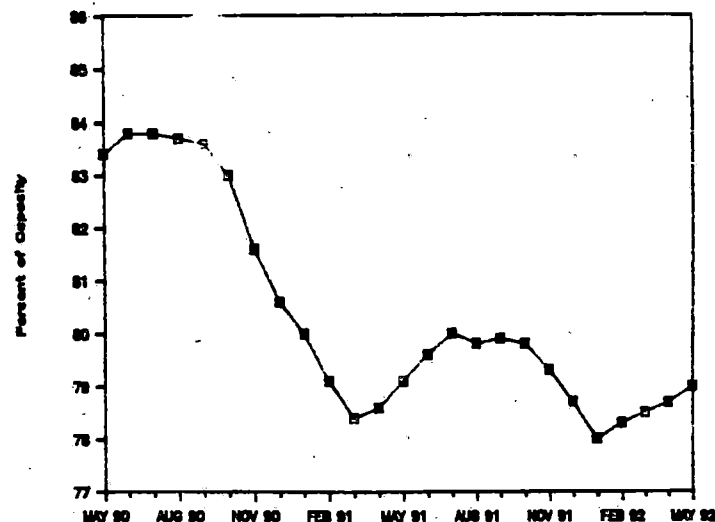
For all industry, capacity utilization rose to 79.0 percent in May from 78.7 percent in April. In manufacturing, capacity utilization rose to 78.1 percent in May.

The first graph below shows that, over the past 4 months, industrial production has more than regained the loss that occurred between October and January. In May, industrial production was 2.2 percent above its year-ago level. The second graph shows that capacity utilization has increased recently, but remains below the levels of last fall.

TOTAL INDUSTRIAL PRODUCTION



TOTAL CAPACITY UTILIZATION





EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

June 16, 1992

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *mjb*
SUBJECT: Housing Starts in May, Commerce Department
Release, This Morning, 8:30 a.m.

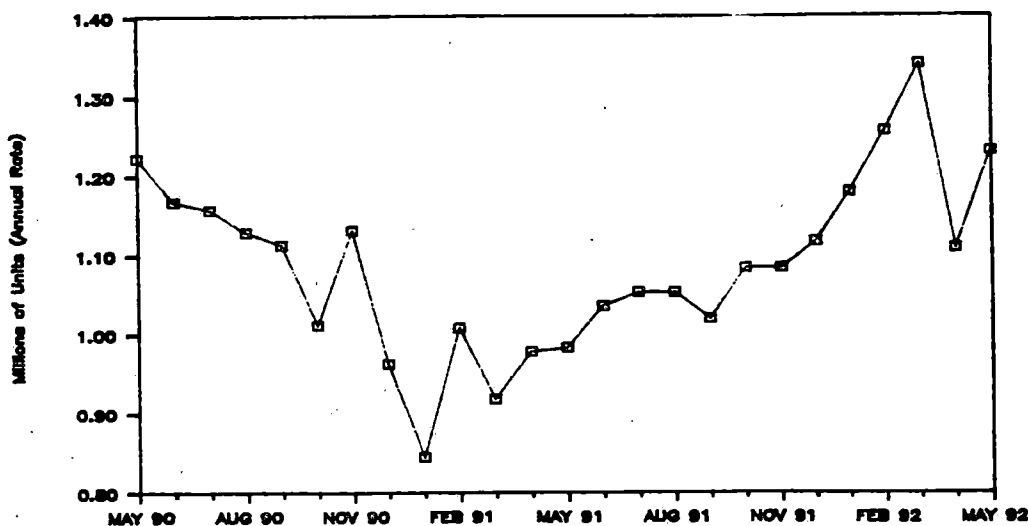
Housing starts rose 11 percent in May to an annual rate of 1.230 million. Private analysts had expected a smaller increase of 4.9 percent. The larger-than-expected increase in starts in May followed the surprisingly large decline of over 17 percent in April. In May, starts rose in all regions of the country.

Single-family starts rose 9.8 percent in May. Multi-unit starts, which can be volatile, rose 18.6 percent in May, after falling nearly 43 percent in April.

Building permits--often an indicator of future housing starts--fell slightly in May. Permits rose for single-family houses, but fell for multi-unit housing.

The graph below shows that housing starts recovered strongly in May from the sharp decline in April, reaffirming the upward trend from January of last year. Starts have increased 25 percent over the past year.

HOUSING STARTS



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 15--19

June 16, 1992

Two releases today show strong construction and production activity in the economy in May. The Commerce Department reported that housing starts rose 11 percent in May, a stronger-than-expected increase. The increase in May partially reverses April's decline of more than 17 percent. Starts have been on an upward trend since January of last year. Separately, the Federal Reserve reported that industrial production--the output of the Nation's factories, mines, and utilities--rose for the fourth consecutive month in May.

Tomorrow the Department of Labor will report on labor productivity in the first quarter of this year. On Thursday, the Department of Commerce will release data on merchandise trade for April. Private analysts expect the trade deficit to narrow slightly.

DATA RELEASED THIS WEEK:

Housing starts rose 11 percent in May to an annual rate of 1.230 million. Private analysts had expected a smaller increase of 4.9 percent in May. The larger-than-expected increase in starts in May followed the surprisingly large decline of over 17 percent in April. Building permits--often an indicator of future housing starts--fell slightly in May. **(Embargoed until 8:30 a.m., 6-16-92)**

Industrial production increased 0.6 percent in May, the fourth consecutive monthly increase. Private analysts had expected a 0.5 percent increase in May. For all industry, capacity utilization rose to 79.0 percent in May from 78.7 percent in April. In manufacturing, capacity utilization rose to 78.1 percent in May. **(Embargoed until 9:15 a.m., 6-16-92)**

The U.S. current-account balance was a deficit of \$5.3 billion in the first quarter of 1992, compared to \$7.2 billion (revised) in the fourth quarter of 1991. **(Embargoed until 10:00 a.m., 6-16-92)**

TO BE RELEASED THIS WEEK:

Release

Median Market Expectation

Productivity (Q-I)
(released 6-17-92)

n/a

Merchandise Trade Balance (April)
(released 6-18-92)

-\$5.5 billion

WHITE HOUSE STAFFING MEMORANDUM

DATE: 7/2/92 ACTION/CONCURRENCE/COMMENT DUE BY: ---

EMPLOYMENT AND UNEMPLOYMENT IN JUNE

SUBJECT: _____

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☒
SKINNER	☐	☒	MCBRIDE	☐	☒
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☒	PORTER	☐	☒
BROMLEY	☐	☐	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒	_____	☐	☒
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For you information.

RESPONSE:

PHILLIP D. BRADY
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

July 2, 1992

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *mjb*
SUBJECT: Employment and Unemployment in June, Labor
Department Release, This Morning, 8:30 a.m.

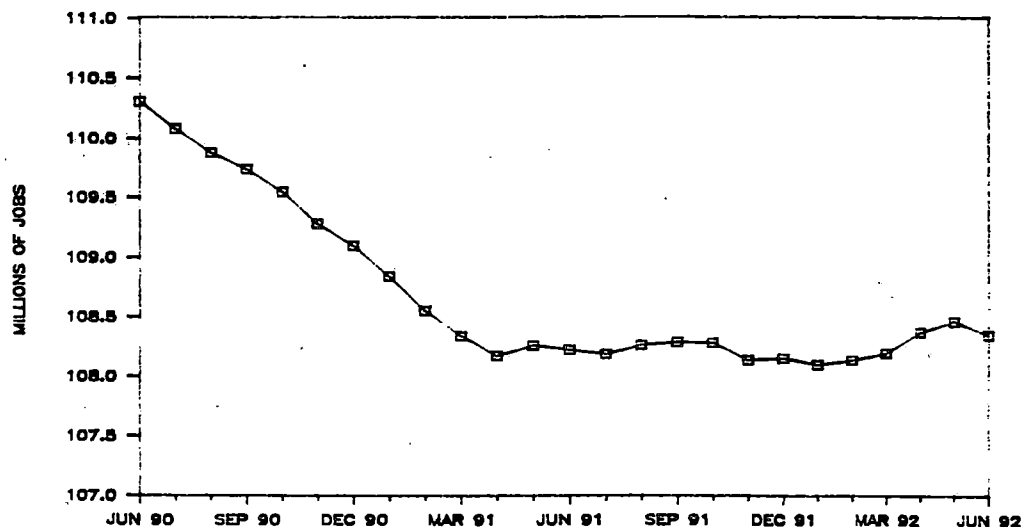
The civilian unemployment rate rose to 7.8 percent in June from 7.5 percent in May. The last time the unemployment rate was this high was March 1984. Private analysts had expected the unemployment rate to fall to 7.4 percent.

The number of nonfarm payroll jobs fell 117,000 in June, following four consecutive monthly increases that totalled 370,000 jobs. The large decline is a surprise; private analysts had expected an increase of 95,000 jobs in June. The decline in jobs was widespread across industries, with government and transportation and public utilities showing the only increases. Total goods-producing employment has now declined for 25 of the past 28 months.

Average weekly hours fell 0.3 hour in June to 34.3 hours for total nonfarm private business. In manufacturing, average weekly hours fell to 41.1 hours in June from 41.3 hours in May. Despite a decline in June, aggregate weekly production hours in the second quarter were up 0.7 percent at an annual rate from the first quarter.

The graph below shows that nonfarm payroll employment has shown very little improvement over the past 15 months, following the decline that occurred during the recession.

NONFARM PAYROLL EMPLOYMENT



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 29--JULY 3

July 2, 1992

Today, the Department of Labor reported that the employment situation unexpectedly deteriorated in June, with the unemployment rate rising to 7.8 percent from May's 7.5 percent rate, and nonfarm jobs falling by 117,000. Private analysts had expected the release to show that the situation in labor markets improved in June, with the unemployment rate falling to 7.4 percent and the number of nonfarm payroll jobs increasing by 95,000. In a separate release, the Department of Labor reported that initial claims for unemployment insurance were 420,000 for the week ending June 20, down very slightly from the previous week.

Earlier this week the Department of Commerce reported that the index of leading indicators--designed to show the likely future performance of the economy--rose in May for the fifth consecutive month. The upward trend in the index of leading indicators is a sign that the economic recovery, although sluggish and proceeding in fits and starts, will likely continue. The situation in housing markets, however, has not been upbeat. Monday the Commerce Department released data showing that sales of new single-family houses fell 5.6 percent in May. Sales of new houses have declined for the last 4 months, after increasing significantly from September 1991 to January 1992.

DATA RELEASED THIS WEEK:

The civilian unemployment rate rose to 7.8 percent in June from 7.5 percent in May. The last time the unemployment rate was this high was March 1984. The number of nonfarm payroll jobs fell 117,000 in June, following four consecutive monthly increases that totalled 370,000 jobs. Private analysts had expected an increase of 95,000 jobs in June. The decline in jobs was widespread across industries, with government and transportation and public utilities showing the only increases. (Embargoed until 8:30 a.m., 7-2-92)

Initial claims for unemployment insurance fell slightly to 420,000 in the week ending June 20, from 421,000 in the previous week. (Embargoed until 8:30 a.m., 7-2-92)

The index of leading indicators increased 0.6 percent in May, the fifth consecutive monthly increase. The increase matched private analysts' expectations.

Sales of new single-family houses fell 5.6 percent in May, to 501,000 units at an annual rate, after falling 2.7 percent in April. Private analysts had expected sales to increase 3.8 percent in May.

WHITE HOUSE STAFFING MEMORANDUMDATE: 6/30/92 ACTION/CONCURRENCE/COMMENT DUE BY: ---

CEA NUMBERS - MAY INDEX OF LEADING INDICATORS

SUBJECT: _____

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	HORNER	☐	☐
SKINNER	☐	☒	MCBRIDE	☐	☐
SCOWCROFT	☐	☒	MOORE	☐	☒
DARMAN	☐	☒	PETERSMEYER	☐	☒
BRADY	☐	☒	PORTER	☐	☒
BROMLEY	☐	☐	SMITH	☐	☒
CALIO	☐	☒	YEUTTER	☐	☒
DEMAREST	☐	☒	BOSKIN	☐	☒
FITZWATER	☐	☒	_____	☐	☐
GRAY	☐	☒	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

For your information.

RESPONSE:

PHILLIP D. BRADY
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

THE CHAIRMAN

June 30, 1992

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MICHAEL J. BOSKIN *my*

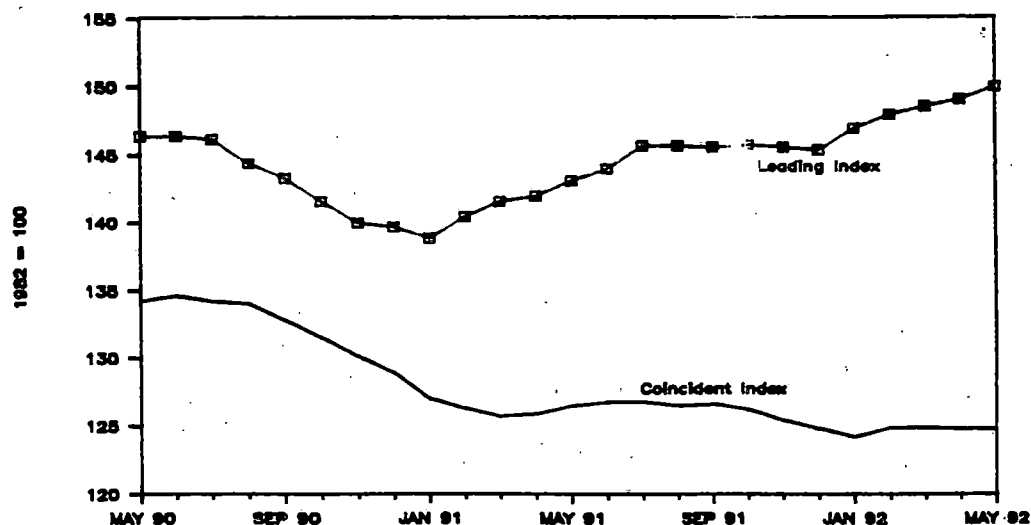
SUBJECT: May Index of Leading Indicators, Commerce
Department Release, This Morning, 8:30 a.m.

The index of leading indicators increased 0.6 percent in May, the fifth consecutive monthly increase. The increase matched private analysts' expectations.

Five of the 11 components of the leading index made positive contributions, with an increase in sensitive materials prices making the largest contribution. Six components had negative effects; the largest negative effects resulted from a decline in the real money supply and from declines in three components related to new and unfilled orders.

The index of coincident indicators was unchanged in May, the third consecutive month of little or no change. Industrial production and payroll employment made positive contributions to the index in May, but those increases were offset by a decline in personal income less transfer payments and a negative statistical adjustment.

LEADING AND COINCIDENT INDICATORS



PLEASE NOTE EMBARGO RESTRICTIONS

ECONOMIC SNAPSHOT FOR THE WEEK OF JUNE 29--JULY 3

June 30, 1992

Today the Department of Commerce reported that the index of leading indicators--designed to show the likely future performance of the economy--rose in May for the fifth consecutive month. The upward trend in the index of leading indicators is a sign that the economic recovery, although sluggish, will likely continue.

The situation in housing markets has been less upbeat. Yesterday the Commerce Department released data showing that sales of new single-family houses fell 5.6 percent in May. Sales of new houses have declined for the last 4 months, after increasing significantly from September 1991 to January 1992.

Later this week, on Thursday, the Department of Labor will release data on the employment situation in June. Private analysts expect the release to show that the situation in labor markets improved in June, with the unemployment rate falling to 7.4 percent from May's 7.5 percent rate, and the number of nonfarm payroll jobs increasing by 95,000.

DATA RELEASED THIS WEEK:

The index of leading indicators increased 0.6 percent in May, the fifth consecutive monthly increase. The increase matched private analysts' expectations. (Embargoed until 8:30 a.m., 6-30-92)

Sales of new single-family houses fell 5.6 percent in May, to 501,000 units at an annual rate, after falling 2.7 percent in April. Private analysts had expected sales to increase 3.8 percent in May.

TO BE RELEASED THIS WEEK:

Release

Median Market Expectation

Employment (June)
(released 7-2-92)

Unemployment rate
Nonfarm payroll jobs

7.4 percent
+95,000