FOIA Number: 2013-0723-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group:	Clinton Presidential Records
Subgroup/Office of Origin:	Records Management - SUBJECT FILE
Series/Staff Member:	Subject Files
Subseries:	

OA/ID Number:	21904
Scan ID:	220477SS
Document Number:	

Folder Title:
BE

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

220477 SS

THE PRESIDENT HAS SEEN
6-3-97

BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

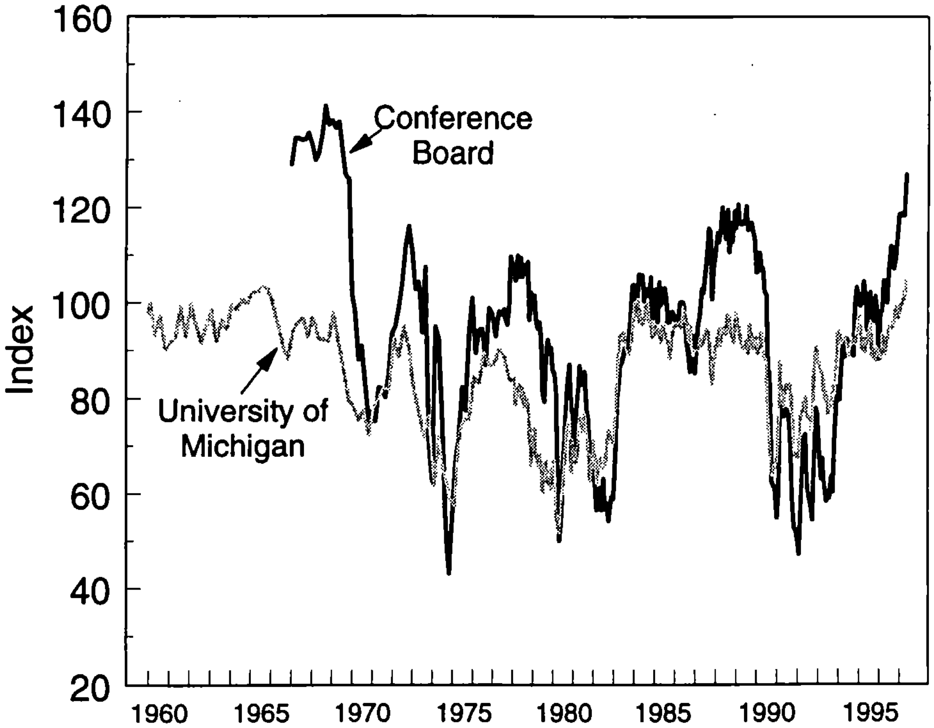
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

May 30, 1997

Copied entire rept to COS
pgs: cover, 1, 2, 3 - Yellen + Chron
page 3 - C. Jennings

CHART OF THE WEEK

Consumer Confidence



In line with the strength of the economy, both the Conference Board's index of consumer confidence and the University of Michigan's consumer sentiment index have risen substantially recently. The Conference Board index is higher than it has been since Americans first landed on the moon in July 1969; the Michigan index, which goes back farther, is higher than it has ever been.

220477

CONTENTS

CURRENT DEVELOPMENT

Leaky Boats in a Rising Tide 1

SPECIAL ANALYSES

A Medicare Managed Care Report Card 2

Trading Water Rights 4

ARTICLE

Zaire: The Latest Example of Hyperinflation 6

DEPARTMENTS

Business, Consumer, and Regional Roundup 8

International Roundup 9

Releases 10

U.S. Economic Statistics 11

Financial and International Statistics 12

"I keep hitting 'escape,' but I'm still here."

THE PRESIDENT HAS SEEN
6-3-97

CURRENT DEVELOPMENT

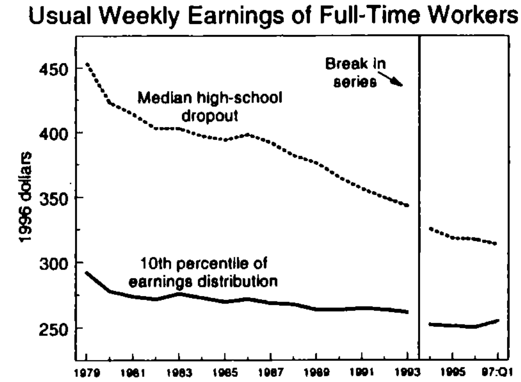
PHOTOCOPY
WJC HANDWRITING

Leaky Boats in a Rising Tide

Recent press reports have trumpeted an improvement in earnings among low-wage workers in the first quarter. But apart from gains due to the recent minimum wage increase, trends in earnings at the bottom of the distribution remain disappointing in the face of a strong overall economy.

Trends. Although some indicators show gains for the average worker, wage increases for less-skilled workers remain elusive. In the first quarter, the median weekly earnings of full-time high school dropouts slipped from $317 to $313 (see chart). True, weekly earnings for full-time workers at the tenth percentile edged up from $250 to $255 in the first quarter. But a preliminary analysis suggests that, rather than being associated with the economic expansion, higher earnings at the very bottom of the distribution are roughly what would be expected based on the increase in the minimum wage from $4.25 to $4.75 per hour.

Usual Weekly Earnings of Full-Time Workers



This expansion has seen no substantial turnaround in the long-term decline in earnings at the bottom of the distribution. Between 1994 and 1996, median weekly earnings for high school dropouts working full-time fell from $325 to $317; earnings at the tenth percentile of the distribution of full-time workers also fell very slightly, from $252 to $250 per week.

What about net income w/ EITC - would that change things? What about next 40% - i.e. 10-50%?

Analysis. Structural changes that have increased the relative demand for skilled workers may be holding down the earnings of less-skilled workers, despite the expansion. Alternatively, the continuing decline in earnings at the bottom may be partly a statistical artifact, reflecting compositional effects due to the entry of increasingly less-skilled workers into the labor market as the expansion has continued. But this composition effect is probably not large enough to be hiding a rise in earnings for continuously employed workers.

THE PRESIDENT HAS SEEN
6-3-97

cc

SPECIAL ANALYSIS

A Medicare Managed Care Report Card

About 11 percent of Medicare beneficiaries are now enrolled in managed care plans. A recent survey conducted for the Physician Payment Review Commission suggests that they are generally satisfied, but some concerns arose.

The survey. Information was collected on the access to, satisfaction with, and utilization of medical care received by people enrolled in Medicare "risk plans" (mainly HMOs) for at least 2 months during the 12 months ending in February 1996. Only limited comparisons with traditional Medicare are possible, but some of the survey's key findings include the following:

- Frequency of preventive care. Medicare risk plans compare favorably with traditional Medicare fee-for-service plans on the only two measures of preventive care for which comparable data are available. Sixty-six percent of enrollees in risk plans reported receiving a flu shot, compared with 58 percent in fee-for-service plans. And 62 percent of female risk plan enrollees reported having a mammogram in the last year, compared with 39 percent in traditional plans.

- High benefits and low costs. Medicare risk plans typically offer comprehensive benefits at low cost to enrollees. Over three-quarters of enrollees paid no additional premium when they entered the plan and 83 percent had outpatient prescription drug coverage. By contrast, individually purchased Medigap policies, which supplement benefits in the traditional Medicare program, typically cost over $1,000 per year and seldom include drug coverage.

- High rates of satisfaction. Medicare risk plan enrollees are generally satisfied with their choice. Ninety-one percent said they would recommend their plan to friends or family members and 96 percent rated the overall health care they received as good, very good, or excellent. Forty-seven percent rated the overall value of the care received for premiums paid as excellent, compared with just 6 percent who considered it to be fair or poor. Only 8 percent of those enrolled during the previous 12 months had left their plans by the survey date, and most who had done so switched to another managed care plan rather than returning to fee-for-service Medicare.

- Experiences of vulnerable beneficiaries. Certain groups of vulnerable beneficiaries (such as those over 85, the functionally impaired, or those classifying their health as fair or poor) reported greater problems with access to care than did others in the survey. For instance, they were more likely to report delays in obtaining health care while waiting for plan approval. Yet they were no more likely to report dissatisfaction with their plan. Nor did they consider fee-for-service to be a better option. One reason for these seemingly contradictory responses might be that vulnerable groups also experience more frequent access

PHOTOCOPY
WJC HANDWRITING

THE PRESIDENT HAS SEEN
6-3-97

problems in traditional fee-for-service Medicare. Or they might be willing to accept slightly greater access problems in return for the comprehensive coverage and low cost that risk plans typically provide.

Implications. Low costs and comprehensive benefits are major attractions to those currently in Medicare risk plans, suggesting that managed care may also be an acceptable option for some people now in the traditional Medicare program. However, the first beneficiaries enrolling in managed care are likely to be those most comfortable with this style of medical care. They may also be relatively healthy, implying that, as managed care grows, average costs may increase.

This should push
higher enrollment
for prescription drugs

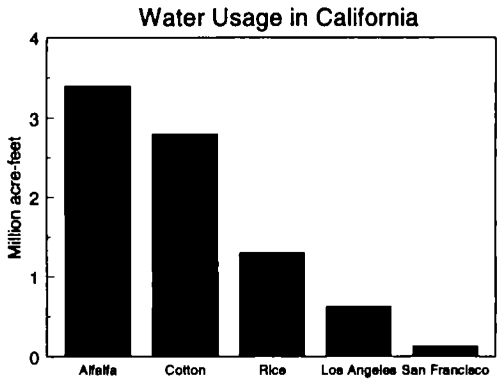
PHOTOCOPY
WJC HANDWRITING

SPECIAL ANALYSIS

Trading Water Rights

Conflicts over water allocation, which have existed in the arid western United States for decades, persist today. Rapid population growth and, more recently, active enforcement of Federal and state environmental laws are the sources of much of the current debate. Water markets might be able to ameliorate conflicts over water use and ease the economic burden of improving aquatic habitat.

California water rights. California is a prime example of the intense conflicts over water allocation. Currently, farmers in the state use about 75 percent of all developed water supplies; municipal and industrial uses receive the rest. To put this in perspective, each year California farmers use more than five times as much water to produce a single crop—alfalfa—than the entire population of Los Angeles receives in the same period for residential consumption and industrial use (see chart). Alfalfa, cotton, and rice together have a value equivalent to less than half a percent of personal income in California.



Water allocation in California is strongly influenced by 19th century laws designed to encourage settlement. The current allocation system has two principal features: a queuing system that determines how water is rationed during periods of shortage; and a requirement that users must make beneficial use of their water supplies, a "use it or lose it" feature that strongly discourages trading. Not surprisingly, this allocation system provides little incentive to conserve water. As a result, farmers in California produce several water-intensive crops with low-tech irrigation methods. This behavior does not reflect irrationality; it is a profit-maximizing response to current incentives.

Benefits of marketable water rights. Recently, water trading has emerged as a way to relieve the pressure on California's water system. During the severe 1987-1992 drought, the state initiated a State Water Bank to purchase water from willing sellers, mostly farmers, and sell it to willing buyers, primarily cities, at fixed prices. More recently, farmers in the San Joaquin Valley have begun trading among themselves through an on-line water market. These efforts are the first steps in the development of a more market-based allocation system, and follow naturally from conditions of scarcity.

Trading among holders of water rights can increase economic welfare by shifting water from lower-valued to higher-valued uses. For example, if farmers were to trade water rights to residential users, both could benefit. The farmers would, in effect, be paid to conserve water by improving their irrigation methods, lining irrigation canals, growing less water-intensive crops or simply fallowing their fields; city residents would receive water that would be freed up by this conservation.

Another positive aspect of water marketing is that it can alleviate perceived conflicts between environmental quality and economic activity—what is sometimes seen as a "fish versus jobs" trade-off. If a certain amount of water must be reallocated from agricultural and urban uses to the environment in order to protect an endangered species, trading can reduce any economic losses from the reallocation. At a given market price, the sellers will be those making the least productive use of their water.

The Central Valley Project Improvement Act of 1992 (the "Miller-Bradley Act") contained provisions to reallocate water to environmental uses and to allow a limited amount of trading. A recent economic study concluded that under current water trading practices, the economic cost of the required improvement in water quality in the San Francisco Bay/Delta estuary would be $100 million. With fully tradable water rights, these costs would fall to about $50 million. In this sense, water trading may be the most cost-effective way to achieve a given water quality standard in the estuary.

Conclusion. California's water system is under increasing pressure from competing interests, including agricultural, urban, and environmental. Water markets have the potential to increase the efficiency of water allocation, and thereby maximize the value of scarce supplies. Further, trading water rights can significantly lower the cost of improving instream water quality.

ARTICLE

Zaire: The Latest Example of Hyperinflation

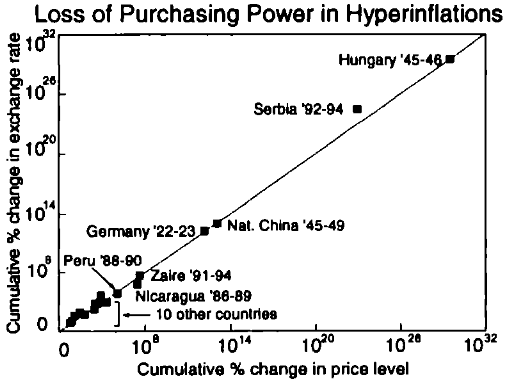
One of the many factors contributing to the downfall of Zaire's President Mobutu was a hyperinflationary period that began in 1991. Zaire is the latest of a number of instances this century in which governments have allowed their currencies to be debased to the point of worthlessness.

Zaire's experience. From November 1993 to September 1994, the inflation rate in Zaire averaged 81 percent per month. Hyperinflation is customarily defined as a sustained rate of inflation in excess of 50 percent per month (12,875 percent per year). The inflation rate in Zaire has been below this rate since October 1994. Nevertheless, the price level has continued to rise—a cumulative 10,000 percent on top of the 300-million percent increase from 1991 to 1994. The people contemptuously called the last batch of currency—notes issued in January in denominations as large as 1 million zaires— "prostates," in reference to Mobutu's surgery for prostate cancer.

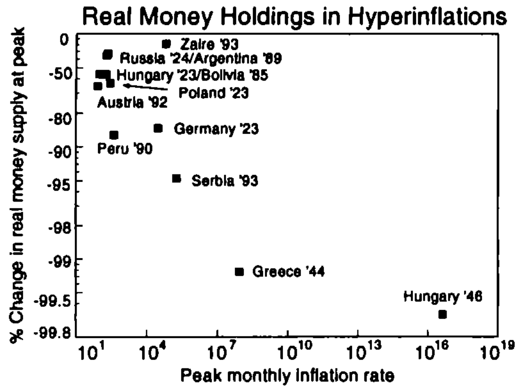
The printing of money is the root of all... Hyperinflation results when a government creates money at an extremely rapid rate. Typically the government does not have control over an effective tax system, but does have control over the printing presses. Often it is a weak government seeking to finance large expenditures like fighting a war.

Price and output effects. The rapid expansion of the money supply raises the demand for goods and services, but opportunities for expanding output to meet this demand are quickly exhausted. The major effect is to increase prices, wages, and other nominal quantities—including the exchange rate—roughly in proportion to the rate of growth of the money supply. The currency loses value, whether measured in terms of purchasing power over domestic goods or purchasing power over foreign goods (see chart). Output tends to be adversely affected in hyperinflations as the usefulness of money as a medium of exchange is undermined.

Loss of Purchasing Power in Hyperinflations



Reduced demand for money. Paradoxically, hyperinflations, which arise from rapid increases in the money supply, lead to a reduced demand for money. People realize that every piece of currency that they hold is rapidly losing purchasing power. Currency becomes a "hot potato." (See the box on the next page for an example from Germany in the 1920s.) Of course, the nominal money supply is increasing rapidly and it is being held by someone. The reluctance to hold cash balances translates into



a decline in the real value of the stock of money. In the hyperinflations of this century, the greater was the inflation rate, the greater were the efforts of people to reduce their holdings of real money balances (see chart).

Central bankers who print money at a hyperinflationary rate are often trying to finance spending without resort to explicit taxation. The inflation itself and the damage to the rest of the economy are presumably regarded as necessary evils. But even a revenue-maximizing government errs if it pushes the rate of money growth too high. At very high inflation rates, people almost cease to use the currency at all. If people will no longer accept the currency, then the government cannot finance spending by printing more of it.

How to end a hyperinflation. Hyperinflations end relatively quickly when the government stops printing money. In Serbia, for example, the inflation rate reached 313,563,558 percent per month in January 1994. Residents tried desperately to buy marks or dollars—anything to avoid holding domestic currency. Then, a new central bank director stopped the hyperinflation dead in its tracks, simply by turning off the printing presses. By then Serbians were so unwilling to hold currency that the government presumably no longer had much to lose by foregoing inflationary financing. When the inflation ended, the central bank governor became an instant national hero. Not all hyperinflations are ended so painlessly, but it is to be hoped that the new Democratic Republic of Congo will be able to re-establish monetary stability.

How the Germans Acquired Their Fear of Inflation

The German experience, from February 1920 to November 1923, has been extensively studied. In October 1923 the rate of money growth reached 1,300 percent per month. The inflation rate reached 29,586 percent per month and the rate of change of the exchange rate 29,957 percent per month. That is just over 20 percent per day; at that rate, the price level doubles in less than 4 days. Fascinating stories abound of what life was like under such conditions. Wages were paid twice a day so workers could shop at lunchtime before prices rose again. So much paper currency was needed to make simple purchases that a wheelbarrow might be needed to carry it to the store. It is said that one shopper left a wheelbarrow full of cash briefly, and found on returning that the wheelbarrow had been stolen...but the currency had been left on the ground.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Do More Generous Welfare Benefits Encourage Participation? Canada is currently conducting a social experiment that provides an earnings supplement for long-term welfare recipients who find a full-time job and leave income assistance. Single parents who are in the treatment group are eligible for the subsidy—which typically doubles the gross take-home pay of recipients—only if they have received welfare for a year or more. The subsidy provides an incentive for long-term welfare recipients to find work more quickly. But it also provides an incentive for short-term welfare recipients to remain on the rolls for at least one year to become eligible for the subsidy. A recent study examined whether women responded to the latter incentive. The experimental design allows for a simple comparison between members of the control and treatment group of the probability a welfare spell lasts for one year. Findings indicate that only a small share of recipients increase the length of their welfare spell in order to become eligible for the supplement. Estimates of the response among long-term welfare recipients to the incentive to find jobs more quickly are not yet available.

Ohio Rules School Vouchers Unconstitutional. Cleveland's school voucher program was recently ruled unconstitutional by the Franklin County Court of Appeals because it was "skewed toward religion." The vouchers had paid 75 to 90 percent of private-school tuition costs this year for about 1,000 students who would have attended Cleveland public schools, plus some who were already attending religious schools in Cleveland. In addition to violating the Establishment Clause of the U.S. Constitution and comparable provisions in the Ohio Constitution, the Court found that the program also violated Ohio's Uniformity Clause, which maintains that state-funded programs must be administered in a fair and uniform manner. The ruling will halt the school voucher program at the end of this school year, unless Cleveland's request for a stay is granted.

Public Health Insurance May Decrease Private Saving. One reason the U.S. saving rate is so low, according to some economists, is that government programs provide insurance against events that people might otherwise guard against through their own saving. Recent research shows, for example, that those eligible for Medicaid may reduce their "precautionary saving." The study finds that if there were no Medicaid system, the number of people in the current Medicaid-eligible population under the age of 65 with some positive net worth would be 4.7 percent higher, and holdings for those with positive net worth would be 18.1 percent higher. Although these effects are large in percentage terms, the dollar value of the increase in holdings is only about $2,000.

INTERNATIONAL ROUNDUP

Australian Car Tariffs Stir Debate. Carmakers and component suppliers are attempting to influence the historically high degree of protection Australia will offer its domestic car industry after 2000. Under an existing "car plan," tariffs have fallen from around 57.5 percent a decade ago to 22.5 percent at present and are set to fall to 15 percent by 2000. Imports now account for more than 50 percent of cars sold in Australia, compared with about 15 percent in the mid-1980s. Meanwhile labor productivity improved from around 11 vehicles per employee in 1984 to about 16 by 1995. Australia's Productivity Commission issued a draft report just before Christmas recommending, on efficiency grounds, that tariffs be cut another 2.5 percentage points per year between 2001 and 2004 until they reached 5 percent, in line with the manufacturing sector generally. Carmakers, local component suppliers, and state-based politicians, who fear the economic impact of further downsizing in the local manufacturing industry, are opposed. Their principal concern is that imports will continue to sweep into the home market while much higher levels of protection in many neighboring Asian countries will limit exports.

Czech Koruna Takes a Plunge as a Floating Currency. This week the Czech currency, the koruna, entered the foreign exchange markets as a floating currency. No longer tied to a hard currency basket that included the U.S. dollar and the German mark, the koruna plunged about 10 percent below its last fixed level. The Czech Republic was one of the fastest starters of the Central and Eastern European countries with regard to economic reform. Initially, economic success translated into a stable currency and political success for the free-market Prime Minister, Vaclav Klaus. More recently, the economy is perceived to have encountered difficulties, and Klaus' political support has declined. The Czech current account deficit reached 8 percent of GDP last year, increasing the currency's vulnerability to speculative attack. For the last 2 weeks, speculators have assaulted the koruna in waves. In trying to maintain the value of the currency, the central bank spent $2.5 billion of reserves, before finally giving up.

Malaysia Plans Currency Futures Market. Malaysia plans to launch a currency futures contract in its own currency, the ringgit, and in other regional currencies as part of an attempt to create southeast Asia's leading futures exchange. The initiative would include the Thai baht, Indonesian rupiah, and Singapore dollar. The plan announced this week follows a statement earlier this month by the New York Cotton Exchange that it would launch futures trading in the baht, ringgit, rupiah, and Singapore dollar starting in June. The futures contracts would be traded 24 hours a day between New York, Kuala Lumpur, and Dublin. Rising merchandise trade, plus the emergence of Singapore as the region's financial center, has rapidly increased regional currency trade. Interestingly, expanding Southeast Asian currency markets could open up opportunities for those traders who will lose work when the EMU is established.

RELEASES THIS WEEK

Gross Domestic Product

****Embargoed until 8:30 a.m., Friday, May 30, 1997****

According to revised estimates, real gross domestic product grew at an annual rate of 5.8 percent in the first quarter of 1997.

Advance Durable Orders

Advance estimates show that new orders for durable goods rose 1.4 percent in April, after decreasing 2.2 percent in March.

Consumer Confidence

Consumer confidence, as measured by the Conference Board, rose 8.6 index points in May to 127.1 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Tuesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1996	1996:3	1996:4	1997:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.1	2.1	3.8	**5.8**
GDP chain-type price index	**5.4**	2.1	2.0	1.9	**2.8**
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.9	0.0	1.1	2.0
Real compensation per hour:					
Using CPI	0.6	0.4	0.7	0.2	2.3
Using NFB deflator	1.3	2.2	2.0	2.7	2.3
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.4	10.6	10.6	10.6
Residential investment	4.5	4.1	4.1	4.1	4.0
Exports	8.2	11.3	11.1	11.5	**11.5**
Imports	9.2	12.6	12.7	12.6	**12.9**
Personal saving	**5.3**	3.6	3.9	3.8	**3.5**
Federal surplus	-2.7	-1.7	-1.6	-1.4	N.A.

	1970-1993	1996	February 1997	March 1997	April 1997
Unemployment Rate	6.7**	5.4**	5.3	5.2	4.9
Payroll employment (thousands)					
increase per month			314	139	142
increase since Jan. 1993					12053
Inflation (percent per period)					
CPI	5.8	3.3	0.3	0.1	0.1
PPI-Finished goods	5.0	2.8	-0.4	-0.1	-0.6

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

New or revised data in **boldface**.
GDP data for 1997:1 **embargoed until 8:30 a.m., Friday, May 30, 1997**.

FINANCIAL STATISTICS

	1995	1996	March 1997	April 1997	May 29, 1997
Dow-Jones Industrial Average	4494	5743	6901	6658	7330
Interest Rates					
3-month T-bill	5.49	5.01	5.14	5.16	4.89
10-year T-bond	6.57	6.44	6.69	6.89	6.75
Mortgage rate, 30-year fixed	7.95	7.80	7.90	8.14	7.94
Prime rate	8.83	8.27	8.30	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level**	**Percent Change from**	
	May 29, 1997	**Week ago**	**Year ago**
Deutschemark-Dollar	1.700	0.3	10.0
Yen-Dollar	116.2	0.2	6.8
Multilateral $ (Mar. 1973=100)	94.75	0.3	6.5

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	**4.1** (Q1)	4.9 (Apr)	2.5 (Apr)
Canada	2.3 (Q4)	9.3 (Mar)	1.7 (Apr)
Japan	3.1 (Q4)	3.4 (Feb)	0.5 (Mar)
France	2.0 (Q4)	12.9 (Jan)	0.9 (Apr)
Germany	2.2 (Q4)	7.8 (Feb)	1.3 (Apr)
Italy	0.1 (Q4)	12.3 (Jan)	1.8 (Apr)
United Kingdom	3.0 (Q1)	7.2 (Mar)	2.4 (Apr)

U.S. GDP data **embargoed until 8:30 a.m., Friday, May 30, 1997**.