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SOCIAL SECURITY PRESS CLIPS

APRIL 5, 1999

National Economic Council



News Digest

SOCIAL SECURITY

Kenneth S. Apfel, Commissioner

THE NEW YORK TIMES

MONDAY, APRIL 5, 1999

SUNDAY, APRIL 4, 1999 WK 3

On Social Security, The Good News Is Bad

WASHINGTON

AT first blush, the news last week from the Medicare and Social Security trustees was good. The economy over the last year has been so strong, actuaries found, that even with no changes in the law, the Medicare system should be solvent until 2015, seven years longer than expected, and Social Security reserves should be sufficient to pay full retirement benefits until 2034, two years more than anticipated.

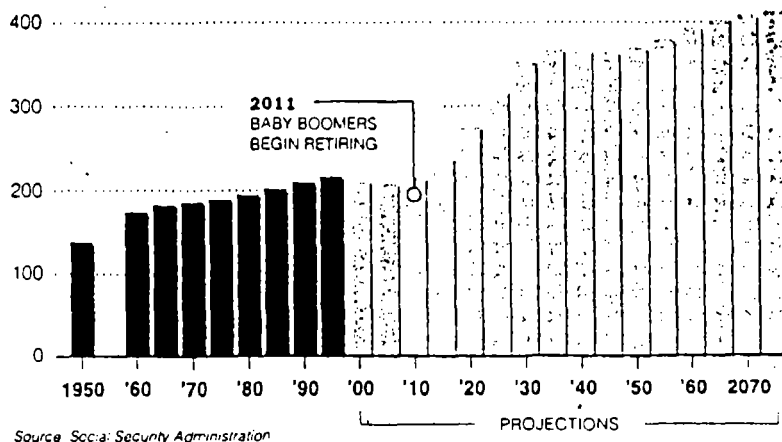
Publicly, President Clinton and Republican leaders were quick to say that the wise course would still be to resolve their differences and act this year to put Medicare and Social Security on sound footing. But the truth is that for Congress, now on recess for Passover and Easter, the news was political manna. It made the problem of the insolvency of the two largest and most popular Federal pro-

grams seem less urgent. And it provided an excuse for postponing tough decisions until after the next election. But data buried in the trustees' report illustrated why the matter cannot be put off indefinitely. The figures showed how the ratio of people of retirement age (who receive Medicare and Social Security benefits) to those of working age (who pay the taxes that finance the benefits) will rise after the baby boomers begin to retire. This almost certainly means that sooner or later taxes will have to be increased or retirement benefits reduced.

Next year, for example, there will be 210 people age 65 and over for every 1,000 people ages 20 through 64. By 2030, the number of Americans of retirement age will rise by 69 percent to 354 for every 1,000 people of working age. And by 2075, it is projected that the figure will nearly double.

DAVID E. ROSENBAUM

The number of retirees for every 1,000 people ages 20 to 64. In 1995 there were 215 retirees for every 1,000 working people; by 2075 this figure could jump to 414.



Trust Funds Build Budget Surplus
By ALAN FRAM=
Associated Press Writer=

WASHINGTON (AP) Politicians bickering over which party would best protect Social Security's huge trust fund are ignoring a dirty little secret: More than 100 other, smaller but similar accounts routinely are used to make the budget surplus look bigger.

These other trust funds cover programs from Medicare to the construction of a monument to World War II veterans planned for Washington. Although most are tiny and obscure, combined they are a mighty force.

Excluding Social Security and its predicted \$137 billion surplus next year, the nonpartisan Congressional Budget Office expects the other trust funds to run a total surplus exceeding \$68 billion in 2000.

That means next year's expected \$133 billion overall federal surplus would be a \$4 billion deficit without the Social Security money and a near \$73 billion deficit without the money credited to other trust funds.

Over the next decade, the non-Social Security trust funds are expected to amass a cumulative surplus of \$614 billion, CBO says.

That number has enormous political significance. It represents three-fourths of the \$800 billion in non-Social Security surpluses Republicans want for tax cuts, and President Clinton and Democrats prefer for Medicare and other programs.

Take that \$614 billion out of the equation, and there is little left for either party to use for tax cuts or for more spending over the next 10 years.

"It would put off the party for a long time," said Robert Reischauer, former director of the Congressional Budget Office and now senior fellow at the liberal-leaning Brookings Institution.

All year, Republicans and Democrats have sought to portray themselves as fervent protectors of Social Security, a widely popular program. Tellingly, though, few want to do the same for the other trust funds.

The chairman of the House Transportation Committee, Rep. Bud Shuster, R-Pa., persuaded Congress last year to begin spending most of the money in the highway trust fund for road building, instead of letting it accumulate. He has launched a similar effort this year for a fund covering airport and aviation projects.

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On the other hand, Sen. Ernest Hollings, D-S.C., has complained that the trust funds have been "looted" to balance the budget and is waging a long-shot campaign to make that illegal.

Some analysts say, however, lawmakers have no particular reason to leave alone many of the trust funds: Their proliferation makes it harder to control spending by creating a sense that the covered programs are politically sacrosanct.

"It's harder to rein them in," said Scott Hodge, senior fellow at the conservative Citizens for a Sound Economy. "You can lose political and budgetary control."

Federal trust funds bear no relation to private trust funds, where someone's money is held and managed by somebody else. Instead, federal trust funds are accounting devices where money is raised and spent for a defined purpose.

If a trust fund collects more money than it spends, the government is credited with a surplus. The excess cash goes to the Treasury, which uses it to purchase paper clips, bombs and other government needs and when possible to buy down federal debt. In return, the trust fund gets a government IOU.

It is unclear precisely how many trust funds exist. In a report last June, the Congressional Research Service cataloged 110. This January, the Congressional Budget Office said there are more than 150.

Only a handful of them account for almost all the trust fund surpluses. Of the \$206 billion in trust fund surpluses expected in 2000, all but \$2.5 billion comes from Social Security, Medicare, federal civilian and military retirement, railroad retirement, unemployment and highways, aviation and mass transit.

Sources of the money vary.

Social Security and Medicare's trust funds for hospital insurance get their money from payroll taxes deducted from most workers' salaries, matched by their employers.

Others, such as the transportation funds, get money from users through taxes on gasoline, airline tickets and such.

Still other funds are fed by federal money, making them simply accounting devices where the government owes itself money. For example, the military retirees' fund comes entirely from the government, with no employee contributions.

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Opinion

(Palmdale, CA)

Antelope Valley Press, Friday, April 2, 1999 **A6**

Social Security must be fixed this year

There's good news that the strong economy has delayed the projected insolvency date of the Medicare trust fund by seven years, to 2015, and the Social Security fund by two years, to 2034.

But there is grave danger that these new projections may cause further procrastination on these programs which are absolutely vital to the well-being of baby boomers and all Americans.

Most people in the huge baby boom generation — people born from 1946 through 1964 — are still working, so Social Security now collects more payroll taxes than are needed to pay benefits to today's retirees. The surpluses are invested in government bonds.

Although economists acknowledge their field is not an exact science, most all of them agree that what's true today is not likely to be true tomorrow.

Today, the U.S. government has what is euphemistically known as "an embarrassment of riches." But onward and upward economies can turn on a dime and plummet down the slippery slope of the monetary trail.

We have seen this happen in

EDITORIAL

■ **Focus:** Although there are signs that the future insolvency problems of Social Security and Medicare may be delayed, there is no excuse for not arriving at an equitable, simple solution this year.

countries all around the globe in the past few years and many Americans have become naive enough to actually believe that it can't happen here.

"This means we have more time to work together. More time to plan. More time to build on the extraordinary progress we've already made," Health and Human Services Secretary Donna Shalala said in a statement.

She is obviously falling into the Parkinson's Law trap. C. Northcote Parkinson wrote in 1957 that "Work expands so as to fill the time available for its completion."

It is absolutely imperative that these problems be resolved now, this year.

If our leaders accept this breathing room as a sign that they

need not wrestle with the situation for many more years — in effect, leaving it for the graveyard shift — that's where the solution will end up ... in the graveyard.

The solvency issue is solvable. The only impediments are the egos of the leaders who want to spend their time shooting flak at proposals they did not originate.

For the sake of the future of America, this nation, which put a man on the moon in eight years, must be able to solve this minor problem by the time of the 30th anniversary of Neil Armstrong's July 20, 1969, giant leap.

Good time not to trust the trust fund

Because the economic news is cheery and will remain so for quite a while, so is the news about Social Security, according to the Clinton administration. It has issued an annual report saying the program's trust fund will not run out of gas until 2034, two years later than earlier predicted. So why worry, one might wonder.

Well, the reason Congress should reform the structure of Social Security immediately is that the supposed trust fund is an accounting fiction. Lean on it

and you lean on air. You crash. The trust fund is essentially a collection of IOUs. It has no assets. All the payroll tax surpluses that are owed back to Social Security — which could have gone to pay down debt, making it easier to borrow the money when needed — have actually been spent on other programs.

As the administration's report shows if you read the fine print and understand the vocabulary is that the real year of reckoning is 2014. Unless reforms are under-

taken now, that's when the surpluses from the payroll tax become deficits and when the government has to reimburse itself out of the "trust fund" by either steep, ever-accelerating, ultimately inflationary borrowing or by raising taxes by steadily increasing amounts — or a combination of both.

If neither alternative is appealing, of course, Social Security benefits could be drastically cut. Even less appealing, right?

This predicted year when Social Security income is no

longer greater than Social Security expenditures is now put at a year later than previously, owing to the country's economic growth. But 2014 is still so close relative to this problem — and the amounts then due so great — that action ought be taken no later than this congressional session to begin accumulating real reserves in private, profit-producing accounts and thereby preventing unpleasant emergency measures later.

If this Congress is lulled into inaction on this and other changes by misleading references to the trust fund, there will be a painful price to pay down the road.

OPINION

Statesman Journal Salem, OR
MARCH 31, 1999

FRONT PAGE

TIP OF THE DAY

Some scam artists mail out offers to provide, for a fee, services such as obtaining a Social Security number for a newborn, notifying the department of a name change or obtaining an estimate of benefits.

Consumers can get this information for free by calling the Social Security Administration at (800) 772-1213.

EDITORIAL

Retirement programs benefit from economy

The strong economy is helping Social Security and Medicare, maybe even delaying the time when the two retirement programs will run out of funds.

The program's trustees have indicated there is a more lengthy stretch of financial security in the program than was earlier forecasted.



Unemployment and inflation numbers are staying low, the lowest in the past 10 years.

Low inflation also saves both programs money, as costs-of-living raises and health care costs

are not going up.

Baby boomers, persons born from 1946 to 1964, are still working, putting in more payroll taxes than are needed to pay for today's retirees. Does this mean our lawmakers should "take a rest" from the problem? The pressure to rush into program changes is not quite so heavy, but the needs for the future are still there — when baby boomers begin to retire. It is still a fact that the funds will not be there to cover the benefits needed.

Among the options to fix the problem are: Adding more money from government surpluses or from tax increases, trimming benefits, raising the retirement age or partially privatizing the program. Lawmakers need to take a good look at these options, before making any decisions.

The pressure is off — but the need will still be there — let's hope our legislators will recognize that need and pursue a viable and workable solution to the problem; strengthening both programs this year. They have until the year 2013, that's when the first baby boomers begin to retire.

Denver Rocky Mountain News

Friday, April 2, 1999

Misleading news on pensions

Because the economic news is cheery and will remain so for quite a while, so is the news about Social Security, according to the Clinton administration. It has issued an annual report saying the program's trust fund will not run out of gas until 2034, two years later than earlier predicted. So why worry?

Well, the reason Congress should reform the structure of Social Security immediately is that the supposed trust fund is an accounting fiction. Lean on it and you lean on air. The trust fund is essentially a collection of IOUs. It has no assets. All the payroll tax surpluses that are owed back to Social Security have actually been spent on other programs.

As the administration's report shows if you read the fine print and understand the vocabulary, the real year of reckoning is 2014. Unless reforms are undertaken now, that's when the

surpluses from the payroll tax become deficits and when the government has to reimburse itself out of the "trust fund" by either steep, ever-accelerating, ultimately inflationary borrowing or by raising taxes by steadily increasing amounts — or a combination of both. If neither alternative is appealing, of course, Social Security benefits could be cut.

This predicted year when Social Security income is no longer greater than Social Security expenditures has been pushed back, too, owing to the country's economic growth. But 2014 is still so close relative to this problem — and the amounts then due so great — that action ought to be taken no later than this congressional session to begin accumulating real reserves in private, profit-producing accounts and thereby preventing unpleasant emergency measures later.

National GOP leaders coming to Overland Park

By KEVIN MURPHY
The Kansas City Star

WASHINGTON — A who's who of Republican leaders in the U.S. House will be in Overland Park next week for a public forum on taxes, the budget and Social Security.

House Speaker Dennis Hastert of Illinois will join other GOP House leaders and Sen. Sam Brownback, a Kansas Republican, for a forum called "It's Your Money, It's Your Retirement" at 5 p.m. Wednesday at the Doubletree Hotel, 10100 College Blvd.

The forum is being sponsored by Citizens for a Sound Economy, a 250,000-member organization that advocates less government and lower taxes. Four similar forums are being held with the Republican leaders in the Midwest next week.

House Majority Leader Dick Armey and Majority Whip Tom DeLay, both of Texas, will attend, along with House GOP conference Chairman J.C. Watts of Oklahoma and Budget Committee Chairman John Kasich of Ohio.

"Kansans will have the opportunity to hear from the entire House

majority leadership on issues that will affect them — Social Security, that national debt, tax cuts and sun-setting the current tax code," Brownback said in a news release.

Citizens for a Sound Economy, which has about 9,200 members in Kansas and Missouri, criticized the budget deal Republicans struck with President Clinton in 1997 but generally backs current GOP views on budget and retirement issues.

"They are taking the time to go out and talk to the American people and to get input on what they are doing," said Liz Tobias, director of tax and budget policy for the citizens group. "They are showing fiscal restraint, they are holding the line on spending, and they are locking up Social Security dollars, which we consider a good first step toward Social Security reform."

The public is invited to attend the forum and may reserve a seat by calling Citizens for a Sound Economy, toll-free, at 1-888-564-8273.

To reach Kevin Murphy, a Washington correspondent, call (202) 383-6009 or send e-mail to kmurphy@ktrwashington.com

EDITORIAL

There is help for social security

Current debate over the future of social security usually omits a major element: How boosting wages can bolster social security's financing.

We constantly hear that too few people will be at work to support the massive baby boom generation which will begin to retire in 2010. But that's not the whole story. Contrary to conventional wisdom, the number of people working is only part of the social

security financing question. How much they earn is the other major variable determining the social security program's income.

More pay translates into more payroll tax collected. But about half the working population of



the United States has experienced either lower wages or, until recently, no wage improvement since 1973. Boosting average wages by just one percent would wipe out more than half of social security's long-term deficit. The most obvious place to start is raising the minimum wage, which should at least keep up with inflation. We should also invest in education at all levels — including retraining for mature people — so that every person can achieve his or her full potential. The nation's ability to sustain social security for the long haul depends, at bottom, on how productive our economy is — how much there is for all to share. If we adopt these measures, the whole economy will prosper. And that will help us to afford an undiminished social security program.

The preceding has been furnished by the Missouri Forum.

Bartlett to hold meeting on Social Security

By DAWN KELLER
Times Staff Writer

Some Carroll residents say they are investing for their own retirement because they're not sure the Social Security program will be solvent when they hit retirement age.

Rep. Roscoe Bartlett, R-Md., will hold a meeting tonight at 7 in the Public Hearing Room of the Carroll County Office Building to get input from the community about how the Social Security system can be saved. He will also explain a House bill he has co-sponsored, which he claims would help the retirement fund.

While some people interviewed on Main Street in Westminster Tuesday say the program needs to be saved, they also said they plan to take care of their own futures.

"I'm not going to be dependent on Social Security," said Brenda Conaway, 49, of Finksburg. "I have other things in place to deal with [paying for my retirement.]"

But, she added, the government has to find a way to save Social Security because there could come a time when even those who plan may need it.

"I guess it could happen to anyone if we live longer," she said.

Others said people shouldn't use Social Security if they can afford to pay for their own retirement.

"If you don't need the money, don't take the money. Leave it for someone who needs it," said Carolyn Cherry, of New Windsor. "I know you've paid for it, but if you don't need it, I think you should leave it for those who do."

Pat Hahn, 40, of Silver Run, said she would rather the government allow her to keep the money she pays into Social Security so she can invest it herself. However, she said, if the government plans to continue the program, she likes the idea of having the government invest in the private sector.

Bartlett's bill would invest a small portion of the Social Security fund in the stock market, similar to the Thrift Savings Plan, which is a pension plan for federal employees, said Lisa Wright,

"This is a short-term strengthening of the Social Security system."

— Lisa Wright
Press secretary
for Rep. Roscoe Bartlett

itor the investments, she said. The bill would not change the benefits people receive or the age when they can start getting them, she said.

Bartlett is convinced the bill can be signed into law this year because it has bipartisan support, Wright said.

But lawmakers still have to find a long-term solution for the Social Security fund. That's why Bartlett is hosting the meeting tonight.

"We're going to discuss the Social Security system and what should be done to strengthen the system for current recipients and future generations," Wright said.

Bartlett's press secretary.

President Clinton has proposed a plan that would use part of the budget surplus for the next 15 years to save Social Security. Some of those surplus dollars would be invested in the private sector under his plan.

According to Bartlett's bill, \$34.2 billion would be invested in bonds in 2001, \$28.4 billion in 2002, \$37.2 billion in 2003, and progressively more each year through 2015, when the government would invest \$136.3 billion.

Right now, Social Security dollars are invested in treasury bonds, which yield a return of 2.5 percent, Wright said. The bill would require that small portion be invested in index funds, which are the top 500 companies in the country, she said. Those 500 companies are selected by market forces, which means that the government couldn't pick and choose which companies to invest in, she said.

Historically, index bonds yield a return of 7 percent, and the difference between the index bonds and the treasury bonds would provide enough money for the Social Security fund to last six additional years, Wright said.

Right now, Social Security benefits are projected to exceed payroll tax revenues in 2013, she said.

"This is a short-term strengthening of the Social Security system," she said.

The bill would require an independent board to be set up to mon-

Bartlett talks with citizens about the future of Social Security

■ *Economy boosts retirement system. / A4*

By J.L. LAWS
Times Staff Writer

The federal government should dissolve Social Security or make it a system that gives individuals more control over the way their retirement payroll taxes are invested, several Carroll residents told Rep. Roscoe Bartlett, R-Md., Wednesday. Bartlett was in Westminster

percent, Bartlett said.

Bartlett's bill would require that small portion be invested in broad index funds, which historically yield a return of 7 percent.

The difference, Bartlett said, would provide enough money for the Social Security fund to last six additional years without raising taxes or cutting benefits.

Right now, Social Security benefits are projected to exceed payroll tax revenues in 2013 or 2014, he said.

Wednesday night for input on long-term ways to strengthen Social Security. He also explained a bill he's co-sponsoring aimed at temporarily strengthening the program by investing a small portion of the Social Security Trust Fund in the stock market. About 25 people attended the meeting at the County Office Building's public hearing room.

Stanley Dill, 42, a real estate office manager from Westminster, said he wants to opt out of the

Bartlett said he thinks Social Security eventually should give way to a system of individual savings accounts that would require taxpayers to contribute a percentage of their income to their account, but give them some say in where it's invested, similar to the Thrift Savings Plan, a pension plan for federal employees.

One man, who didn't give his name, said the Chilean government's individual savings account program is so successful that

Social Security program and save for retirement on his own.

"I think I can do better with my money than the government can," Dill said, adding that he thinks Bartlett's plan is out of character for him. "I say that because it would create another level of bureaucracy and another layer of cost."

Bartlett agreed, but said: "That's why it's intended to be temporary."

Right now, Social Security dollars are invested in treasury bonds, which yield a return of 2.5

percent, Bartlett said. Another man who didn't give his name said he's leery of individual savings accounts.

"I think there has to be some mechanism to get Social Security into the market," he said. "My fear with individual savings accounts is: What happens when things go south with the market? The whole point of Social Security was to do something for the people who couldn't do anything for themselves."

Carroll County Times

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Online at www.carrollcounty.com

"In every country, press freedom boils down to ... a three-way deal between state power and popular instinct and the media's muscle."

— *Geoffrey Robertson*
British lawyer, 1997

Nation that saves too little relies on Social Security

Concern about the future of Social Security has people debating whether they should be given control over their money to invest as they see fit.

Those concerns were voiced this week when Rep. Roscoe Bartlett, R-Md., held a forum giving residents a chance to express their view on the subject.

Bartlett is also co-sponsoring a bill that would allow a portion of the Social Security Trust Fund to be invested in the stock market. The idea behind that strategy is that money in the stock market would provide a greater return than the 2.5 percent return on treasury bonds, which is where Social Security dollars are invested.

Experts predict that Social Security payouts will exceed payroll tax revenues by

2013 or 2014. Some people are concerned that, when it comes time for them to retire, they will never see any of the money — or only a small portion of the money — that they have paid in to the system.

They would rather the government allow them to save for their own retirement,

but that idea should be a concern to most taxpayers who eventually would end up paying the bill when the government ended up supporting people who didn't save enough for their future anyway.

A portion of the population would probably make out quite well managing their own retirement money. A larger portion of the population, however, would not be as successful.

Consumer debt is at an all-time high. Most individuals have little or nothing in savings. One need only to look at the percentage of the population that each year allows the government to deduct more than necessary in taxes. These people reap the benefits of a large return, but they don't realize they are losing money they could be earning interest on.

Bottom line is: Most Americans can't save money.

Social Security may need updating and revisions, but scrapping the entire system would be a mistake unless there were some guarantee that people would save for their retirement.

Without that, the government — and tax dollars — are just going to end up paying anyway.

Scrapping Social Security would be a mistake unless there were some guarantee that people would save for their retirement.

The 'Notch' Act

Social Security beneficiaries, 1917 - 1921

*Commentary by Ann Kohlmeister
Manager of the Napa Office*

Recently, there has been a renewed interest in the Notch Act. Organized groups seeking donations from the Notch babies (born between 1917 and 1920) have particularly fueled this interest. Before talking more about current legislation, past legislation, and these organizations, how about a little background on the "Notch" Act.

In 1972, a law was passed that provided automatic cost of living increase for all Social Security recipients, so that their benefits would keep pace with inflation. However, the formula used to apply the increases was flawed and benefit levels actually rose faster than the rate of inflation.

Before Congress corrected this error in 1977, many people born between 1910 and 1916 had their benefits figured using the flawed benefit formula and they received an unintended windfall from Social Security. When Congress fixed

the mistake, it wanted to avoid an abrupt change for those about to retire, so Congress provided a phase-in, or transition period.

Thus, when Social Security benefits are calculated for people born between 1917 and 1921, two computations are used: one using the new and correct formula, and another using a special transition formula. Beneficiaries receive whichever formula pays them a higher benefit.

Every year bills have been introduced to Congress that seek to revise the computation formula. The 105th Congress introduced the following bills in the House of Representatives: H.R. 146 and H.R. 45. These bills call for a change in the Social Security benefit computation method. S.2003 bill was introduced to the Senate and was similar to the two bills introduced in the House of Representatives. All of these bills were referred to committee and died.

The bill that received the most attention was H.R.3008. Sponsored by Rep. Neuman of

Wisconsin, it allowed beneficiaries to have their benefits increased or collect a \$5000 lump sum over a four-year period. As a result of this legislation, the public has been receiving mailings from a group called TREA (The Retired Enlisted Association) Senior Citizens League, headquartered in Washington, D.C. Beneficiaries are asked to sign a petition and send a contribution to the organization in order to get their name placed on the National Register of Notch Victims. It is likely that the 106th Congress will see a similar legislation again in 1999.

The Social Security Administration would like the public to know that if legislation were to pass ALL eligible individuals would receive the benefits they are due - not just individuals on the TREA's list.

If anyone is interested in more information on the "NOTCH," please call 1-800-772-1213 or visit any Social Security office and ask for publication 05-10042, "The Notch. What It Is and What It Isn't."

EVENT: SYMPOSIUM - THE BUSINESS ROUNDTABLE

=====> SUBJECT: The Business Roundtable holds a Social Security Symposium.

PARTICIPANTS: Treasury Deputy Secretary Lawrence Summers

LOCATION: Carlton Hotel, Main Ballroom, 923 16th Street NW,
Washington, DC
-- April 6, 1999

CONTACT: 202-872-1260 or 202-622-2960

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EVENT: FORUM - CATO INSTITUTE

=====> SUBJECT: Cato Institute hosts a Policy Forum on "State and Local
Government Retirement Programs: Lessons in Alternatives to
Social Security."

PARTICIPANTS: Carrie Lips, Cato; Valerie VanDeweghe, City of San Diego;
Rick Gornto, Galveston, TX, Alternative Plan; Thomas
Lussier, Massachusetts Teachers' Retirement Board

LOCATION: Cato Institute, F.A. Hayek Auditorium, 1000 Massachusetts
Avenue NW, Washington, DC
-- April 7, 1999

CONTACT: Robin Hulsey, 202-789-5293

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The Washington Post

AN INDEPENDENT NEWSPAPER

A New Discharge Petition

WHEN CONGRESS returns, the stubborn Blue Dog Democrats, mostly moderate-to-conservative members, intend once again to circulate a discharge petition to force the Republican leadership to bring campaign finance reform legislation to the floor. They did the same thing last year and succeeded because sufficient Republicans signed on. This year, out of deference to new Speaker Dennis Hastert, many of those same Republicans are said to be demurring. If they do—and if Mr. Hastert continues to hold up the principal bill—they will be killing for this Congress what they profess to support.

For all the furor surrounding it, the bill is actually quite modest. It does not seek, as arguably it should, to moderate the role of money in congressional campaigns by extending to them the system of voluntary spending limits and partial public funding that prevails, at least on paper, at the presidential level.

Rather, it seeks simply to repair the gaping hole that has developed in the present system—the use of the national parties to raise and spend on behalf of their candidates funds the candidates are forbidden by law to raise and spend themselves. This so-called soft money was the source of most of the excesses in the 1996 presidential campaign; next year's campaign will be discolored by it even more if Congress fails to act. The bill would ban it, and to keep the ban itself from becoming a farce, would try to limit the use of organizations outside the parties to accomplish the same evasion.

The House passed it last year, but so late that the Senate leadership was able to deflect it, even though a majority of the Senate too seemed prepared to vote aye. This year the House

sponsors seek an earlier vote. Mr. Hastert has said the House should deal with budget issues first—taxes, Social Security, perhaps the appropriations bills. But everyone understands that votes on those issues are weeks, if not months, away, and meanwhile the House has little to do.

Campaign finance is an issue to which neither party comes with clean hands. The president professes to support the current bill; no matter that the excesses of his last campaign are precisely what the bill is meant to stop. The Republicans, meanwhile, deplore those excesses but are blocking the bill because it is they, not the Democrats, who are able to raise the most money under the current rules. The first returns also are in on next year's presidential election, but the count is of dollars, not votes. The candidates are turning in their fund-raising reports for the first quarter of the year. Vice President Gore and Texas Gov. George W. Bush are well ahead.

Their early success is likely to help them widen the gap even more; donors want to be with a winner. The election is being shaped, not just months before the first vote will be cast, but before the candidates even have been heard on the issues. The bunching of next year's primary schedule—the states keep moving up their dates so as not to be voting after the nominations already are won—means that money will matter even more.

We have reached a point in this country where national office increasingly is bought, even if the officeholders themselves are not. That's what House members ought to be thinking about when the discharge petition comes around.

The Philadelphia Inquirer

Monday, April 5, 1999

Frank words about Social Security, taxes, volunteerism.

How Bill Bradley would serve

Last of two parts.

Interview with Bill Bradley

Freelancer Scott Holleran continues his discussion with former N.J. Sen. Bill Bradley, a candidate for the 2000 Democratic presidential nomination.

Scott Holleran: As you know, the Medicare Commission failed to recommend a plan to revise Medicare. Is consensus possible on entitlement reform?

Bill Bradley: I think it will be very difficult because it's been such a political football. It's only a question of whether you want to act now — when there's less of a crisis — or later, when there will be a bigger crisis. One of the first things we ought to do is remove the fiction that we have a giant surplus. The surplus is Social Security taxes that you and I have paid in for the last 15 years. We should remove Social Security from the budget ... and, suddenly, there wouldn't be a general revenue surplus at all. Then, you can decide what you want to do with a true surplus, if one ever arises, and what you need to do to preserve Social Security.

SH: Would you consider raising taxes to support Medicare and Social Security?

BB: I'd like to keep economic growth high and, as the economy grows, create a general revenue surplus with the additional money that comes in to deal with things that I think are most important, not the least of which is what happens to children from birth to 5 years of age.

SH: So you would not actually rule out raising taxes?

BB: If you have high economic growth, that won't be necessary.

SH: Are you an environmentalist?

BB: I believe we need to protect the natural world for our children to experience. We must balance property rights with the needs of society. It's not impossible.

SH: You voted against the Strategic Defense Initiative (SDI) while you were in the Senate. Should we have a missile-defense program?

BB: I'm very skeptical. I wouldn't foreclose some possible system, but I certainly would not support a land-based system. We have to de-

*Bradley believes
in public service
but sees many ways
of fulfilling the call.*

fine what the threat is. [Korea and China, for example,] aren't significant threats to our country. They're threats to overall stability in northeast Asia, but they're not intercontinental threats. We have to be very careful about making someone into an enemy who needn't be an enemy.

SH: You once said that "equal incomes should pay equal taxes."

BB: Right.

SH: Does that mean you're an advocate of a flat tax?

BB: No. The flat tax would be a mistake. The closest we'll ever get to a flat tax is what we passed in 1986, which was two rates at 15 and 28 percent. The best income tax system is the one with the lowest rates and the fewest loopholes.

SH: Why should one be penalized for making more money? Wouldn't a flat tax be more fair?

BB: Those who have more should pay more.

SH: Why?

BB: That's just what I believe.

SH: You write about the obligations Americans have to one another. Is the individual morally obliged to serve others, as Colin Powell claimed at the volunteerism summit in Philadelphia?

BB: That's the highest moral calling. It's a question each one of us has to ask: "What to do I owe a stranger?"

SH: But who rightfully answers that question — government or the individual?

BB: The individual. Some people say, "I pay my taxes and that's it." Others say, "I owe a contribution to charity." And others say, "I owe a part of my life." For 18 years, [by serving in the U.S. Senate,] that's what I decided: I owed the American people and that stranger.

SH: Public service is a cornerstone of your career; can you be good person if you don't serve others?

BB: It's important that you ask yourself whether you owe another human being and then make a contribution. There are millions of people in the private sector who have the highest ethics, who feel committed to the people they employ and provide those people security that otherwise they would never have. That's what the private sector does. Frankly, I think that Barbara Bush wasn't all wrong a couple of years ago when she said: "What happens in your house is more important than what happens in the White House." In a very fundamental way, that's true.

Tomorrow: "Urban Perspective" with Acel Moore; "Alarms and Diversions" with David Boldt.

Baby Boomers Unprepared For Future Health Needs - Study

Dow Jones News Service via Dow Jones

By Dawn Kopecki

WASHINGTON (Dow Jones)--The average Baby Boomer has saved a mere \$34,000 for retirement, and two out of three don't think they have enough money set aside to get through a long-term illness, according to a new study released Thursday.

The national survey of 800 adult Americans between the ages of 34 and 52 also shows that many Baby Boomers know little about their own health insurance, the costs of long-term care and how much Uncle Sam will cough up for the chronically ill.

The study comes just as Washington is grappling with ideas to overhaul the flailing Social Security and Medicare programs for the elderly. New statistics predict the health insurance program will breathe its last breath in 2015. Social Security is expected to go bust in 2034.

And the Baby Boomers responsible for accelerating the deaths of those programs aren't prepared to finance their own long-term health care needs, the study found.

About 30% of those same people have less than \$10,000 set aside for retirement. Only 8% of the those between 34 and 52 years old have more than \$100,000 saved for retirement.

The one positive note seems to be that most of this age group, 91%, currently has health insurance. And about 27% claim to have long-term health insurance.

But in reality, only 2% actually have the kind of insurance that would cover a long-term need such as nursing home costs.

And less than one in five Baby Boomers have enough saved for retirement to afford a year's stay in a nursing home, which can cost up to \$50,000.

Most Boomers Unaware Of Medicaid Requirements

"It doesn't come as a big surprise to anyone in the industry because we all know that Baby Boomers are not adequately prepared for their long-term care needs," said Patrick Brady, executive director of Citizens for Long Term Care, a coalition of more than a dozen powerful insurance, labor and consumer lobbies in Washington.

In addition, more than half of the Baby Boomers surveyed were not aware that Medicare does not cover the costs of extended stays in nursing homes. Only

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Medicaid, the health program for the poor, will do that. But the program only kicks in after a retiree almost completely depletes his assets.

Female Baby Boomers are in even worse shape when it comes to long-term health care needs, the survey showed. And many assume they will have to bear a brunt of the work when it comes to taking care of chronically sick relatives.

"With care-giving comes consequences that are suffered by female Boomers," according to the study commissioned by the American Health Care Association. "Sizable percentages said they were forced to hire nursing help (46%), incur large expenses (44%) and quit their job or take a leave of absence (41%) as a result of their care-giving."

Women also earn less, 75 cents for every dollar a man makes, and have less saved for retirement - an average of \$30,000.

"Women are probably the one socio-economic group most affected by long-term care needs," Brady said. "They live longer than men; they traditionally have earned less so they save less. And women become the primary care-givers when someone gets sick."

Also, many aging couples will exhaust their financial resources on a husband's care, leaving many elderly women penniless when they fall ill, Brady said.

The Washington-based American Health Care Association hired two polling firms to conduct the telephone survey, asking people between the ages of 34 and 52 about their views on long-term care and the government programs set up to help fund those costs.

-By Dawn Kopecki; (202) 862-6637;
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We Need Medicare. Let's Figure Out How to Pay for It.

By ROSEMARY A. STEVENS

As an immigrant from Britain to the United States, I have long appreciated the vigor, even the relish, with which Americans embrace change, often without fully thinking about the consequences. If one action doesn't work, we are usually willing to try something else. Get the poor off welfare. Wipe out illicit drugs. And let's do something about Medicare. Why not discard its tired, expensive, "socialized" expectations and rush to a new, redesigned model that is more attuned to private incentives?

We might be well on the way to making major changes in Medicare if the National Bipartisan Commission on the Future of Medicare had been able to reach agreement a few weeks ago. The members were unable to do so, and the commission dissolved. Convinced as I am that privatization is the wrong way to fix Medicare, I was glad to see that commission chairman Sen. John Breaux (D-La.) could not muster the votes for a proposal to make Medicare into the equivalent of a voucher program.

Since the commission went out of business, a new government forecast has suggested that Medicare's financial problems are not quite as urgent as previously thought (it will run out of money in 2015, rather than 2008). But that shouldn't deter us from doing what the commission failed to do: confront some basic questions about what Medicare is and what it should be. Given Medicare's enormous importance as a fiscal plank in planning for retirement, it is shocking how poorly understood it is by most Americans.

Under Breaux's "premium support" plan, Medicare's elderly and disabled beneficiaries would sign up for managed care or fee-for-service insurance. The federal government would provide an annual subsidy at a level set periodically by Congress—a level that might go down or up in the future. There were strong disagreements, which particularly caught my attention, among commission members about whether (and how) the private market could do a better job than the present federal program in controlling Medicare's huge costs while main-

taining its basic guarantees.

Why do we even have Medicare? It is a peculiar program when you think about it. No other leading nation has a national health insurance program for its elderly and disabled without having one for the rest of the population. The way it is funded also is unusual: Workers and other taxpayers contribute to Medicare during their working lives and then, as Medicare beneficiaries, continue to contribute to the program on a regular basis, both as taxpayers and through Medicare premiums (about \$45 a month at present); when they need services, a series of deductibles and co-payments also kicks in. In return, at 65 years of age, or earlier if disabled, enrollees are eligible for a nationally specified, limited menu of benefits.

I remember the passage of the Medicare Act in 1965 as part of my own rite of passage. I had arrived in the United States as a young bride four years earlier, and worked briefly at a private rehabilitation hospital, where I was appalled that patients were discharged when their insurance ran out. It was the indescribable confusion of American health care in the early '60s that prompted me to become a medical historian. How else could one begin to understand the system, with its mixed messages of equal opportunity, the right to health care, unequal access to private insurance, and working families plunged into debt to pay their own medical bills and those of their parents? The newspapers and congressional hearings of the time were filled with tragic stories: a man who had to sell the business he had built up for this family in order to pay for his mother's operation; an elderly widow who cared for her husband through his fatal stroke, used up their lifetime savings and lived in dread of being a burden to her grown children.

The cold fact behind such tales, now as in the 1960s, is that the private health care market does not—and cannot—work for all Americans. Insurance figures for the 1960s showed that people 65 years of age and over incurred twice as many hospital expenses as those under 65—but they had incomes, on average, of only half as much. The biggest worry in the early 1960s was the cost of hospitalization; it was for this reason that Medicare was launched, primarily, as a hospital insurance program (Part A), with medical insurance (Part B) handled separately. We still have this dual form. Medicare brought benefits to those who would otherwise be

uninsured, and billions of federal dollars to the providers of services for Medicare enrollees. In both ways—as insurer of the otherwise uninsurable and as subsidizer of hospitals, professionals and other services—Medicare supported the private health care market. The public and private systems were, and are, complementary.

Where the private market fails, the goal of American health policy has been to try to fill the gap—and, in so doing, to sustain the private system. Medicare rests on the simple fact that only the government can insure the elderly and disabled population. If purchased in the marketplace, the insurance Medicare provides would cost one out of

Broader questions have largely been ignored in policy debates.

three elderly couples more than half their family income.

The services initially covered by Medicare mimicked those of the private system of insurance as it existed in the 1960s. Private insurance did not then cover prescription drugs outside of hospitalization; dentistry, eye glasses, or routine medical visits. These exclusions were carried into Medicare and have continued, under congressional direction. Since then, coverage in the private market has altered significantly and medical practice has experienced profound changes, moving away from hospitals, toward better management of chronic conditions and the use of sophisticated pharmaceuticals. (Both private insurance and Medicare insurance still largely ignore long-term nursing home care.)

Where Medicare has been most successful, phenomenally so I believe, is in bringing sophisticated technologies to older Americans. Think of elderly individuals you know whose lives have been transformed by, for example, hip or knee replacements, heart surgery, or cancer treatments that were unknown in the 1960s. One out of every six hospital surgeries is for individuals ages 75 or older, and many of these patients gain years of life with improved health, mobility and independence.

Rosemary Stevens is Stanley I. Sheerr Professor in History and Sociology of Science at the University of Pennsylvania.

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As the bipartisan commission recognized, but failed to address satisfactorily, the most important exclusion in terms of today's advanced technology is lack of coverage for prescription drugs. For some patients with heart disease, cancer or diabetes, or a combination of several conditions, the cost of life-sustaining prescription drugs can be hundreds of dollars a month. Elderly Americans have few resources to meet these needs. Despite rumors of an army of affluent, merry-making oldsters, fewer than 10 percent of elderly Americans can be considered "rich," if you define rich as having an annual income of more than \$75,000. But at the other end of the spectrum, more than half of all Medicare beneficiaries had incomes of less than \$25,000 in 1997.

The typical enrollee relies to a great extent on Social Security benefits, and out-of-pocket medical costs are already taking a hefty slice of this: about 19 percent of average income. Prescription drugs simply have to be included to meet the promise made by Medicare to all Americans: that we would not have to face destitution in old age or become a burden to our children because of unpredictable medical bills.

How are we going to pay for this? This is the obvious next question. It seems common wisdom that Medicare is too expensive or at least that it costs more than we wish to pay. But let's turn the question on its head. How much *should* we pay for the elderly and disabled population's health care? I recently chaired a study panel for the National Academy of Social Insurance, which looked into such broader social questions. Our report, "Medicare and the American Social Contract," published in February, offers a primer on Medicare's value to the United States as well as its costs. It stresses the often forgotten fact that Medicare is an enmeshed part of our total public-private health care system. A critical reason the costs of Medicare are high is that we have a high-cost health care system. Our report shows that Medicare's record at controlling costs is no worse than that of the private sector.

If it seems fair to cover prescription drugs, we should do so. If we think the costs of health care are too high, we should not limit our actions to curbs on Medicare. In terms of the proportion spent on older members of the population compared with younger members, our figures are not out of line with those proportions found in other leading nations, including Japan and Germany

(although our total national health expenditures may be higher). We need to ask ourselves seriously how much we are willing to invest in the elderly (which means all of us, in the present or the future). Would it be fair to spend twice as much per person for our elders as for others, given the greater health risks they face in later years? More than that, or less?

These broader questions have been largely ignored in policy debates. Now is the time to bring them in. There has been a dogmatic narrowness of discussion about Medicare as if it were an isolated program; about costs as if they were unrelated to values deriving from Medicare, one of the most popular federal programs among all age groups; and about the claimed virtues of private over government operations. So far, Congress has not given Medicare either the freedom or the venture capital to manage such a huge system (one of the largest health insurance programs in the world) proactively or creatively. In these circumstances, it performs with remarkable effectiveness. Medicare benefits do need readjusting to take account of current medical practice, and perhaps it would be easier to do this through a national oversight board rather than through Congress—or even through national health insurance. The important thing is to agree on basics.

National debate about Medicare's future needs to go beyond the Beltway experts and their expanded networks (in which I include myself). America's elders and disabled individuals represent all of us, urban and rural, richer and poorer, healthier and sicker, retired and still working. Some of us face physical limitations on our ability to work well before the age of 65; proposals to raise the age of eligibility are senseless and cruel. Some of us will live in good health, benefiting from new technologies until advanced age, and contribute to society as productive citizens, if only through family and volunteer work. Others may be visited by major, crippling illness. We cannot know what the future will bring. It is this uncertainty that makes Medicare necessary.

As income protection, Medicare is as important today as it ever was. We must not return to the pervasive horror stories of the 1960s in efforts to produce short-term financial fixes, or rush into unnecessary, hastily thought through upheavals. Medicare will never pay its own way. Let's just accept that.

March 24, 1999

MEMORANDUM FOR GENE SPERLING

FROM: CARL HAACKE

SUBJECT: Roll out of DoL's 1998 child labor report on Thursday, March 25

Background

As you know, Sen. Tom Harkin will be hosting an event with Labor Secretary Alexis Herman and yourself on Thursday, March 25 at 10:30am in 608 Dirksen to release the DoL 1998 abusive child labor report, *By The Sweat and Toil of Children, vol.5: Efforts to Address Child Labor*. Because Sara Rosen was working on the "Consumer Financial Right to Know" event for Thursday, I was asked to prepare this for you. You will get a more detailed account of the event and who is expected to say what, when and why by the time you return tomorrow because many of the components are still in flux.

Out of concern that the international focus of the event would leave us vulnerable to criticisms of our own child labor problems, will also comment on their *Salad Bowl* initiative. Enclosed is the press statement that will be sent out -- that we are not supposed to have yet.

The Labor Department also indicated that Sen. Harkin may raise several issues with you and/or the Secretary on the side. They wanted to make sure we were all on the same page. As this memo is going to the printer, I have not received more detail than what is below. By the time you return I will have more information. Sen. Harkin may ask:

- 1) What is the status of the his fair pay proposal ?
- 2) What is the status of the child labor executive order ?
- 3) He is planning on dropping his domestic child labor bill and may ask about where the Administration is.

The Event

As this memo is going to the printer the schedule begins at 10:30am in 608 Dirksen and follows the course of events listed below. I will coordinate with DoL to integrate your role.

- Sen. Harkin will make introductory remarks and introduce the Secretary.
- The Secretary will:
 - talk about the Salad Bowl findings;
 - talk about the reports findings;
 - talk about the citations DoL has given employers.
- Sen. Harkin will introduce you. DoL suggested that you could thank Harkin for being the leader on this issue and focus on the White House budget initiatives and the importance of this issue to the Administration as a whole.
- Q&A with press.

Background on the Report

Enclosed is the Conclusion of the report which gives a good overview.

Background

- Until recently, child labor has not been widely recognized as an issue of important global concern. International public attention regarding child labor has steadily grown over just the past few years.
- Poverty is the reason most often given for why children work, but child labor also perpetuates poverty, since children who must begin work at an early age compromise their own future, as well as the economic future of the nation.
- The report provides an assessment of the problem, and solutions being tried in 16 countries: Bangladesh, Brazil, Egypt, Guatemala, India, Kenya, Mexico, Nepal, Nicaragua, Pakistan, Peru, Brazil, South Africa, Tanzania, Thailand, and Turkey.

The Extent of the Problem

- The International Labor Organization estimates that at least 250 million children between the ages of five and 14 are working in developing countries. Approximately 120 million of these children work full time, and tens of millions of these work under exploitative and harmful conditions. According to the ILO, the majority of the world's working children (61 percent) are found in Asia, followed by Africa (32 percent) and Latin America and the Caribbean (7 percent).
- Many of the world's working children labor in occupations and industries that are dangerous or hazardous -- often exposed to toxic and carcinogenic substances such as asbestos, benzene and mercury. The harm caused to children can be irreversible.
- Efforts to identify the extent of the child labor problem within a country are an essential step towards developing effective strategies. Such efforts include: 1) conducting specialized child labor surveys; 2) using standard definitions and methodology; 3) institutionalizing the regular collection of child labor data within standard labor force surveys.

Laws

- The minimum age for employment in the countries investigated varies from 12 (Bangladesh, Peru, Tanzania) to 16 years (Kenya). Despite the presence of some laws, key sectors are often exempted and it is in these industries where the highest numbers of working children are found, such as small-scale agriculture, domestic service, and small scale manufacturing. Some children are hidden from view, out of reach of inspectors such as domestic servants and child prostitutes.
- Inadequate enforcement of existing laws remains a wide spread problem. Labor inspectors are understaffed and lack resources.
- A number of countries are considering changes that are important first steps. Thailand,

Bangladesh and Brazil are considering laws to increase the minimum working age. Kenya, Philippines, Mexico, and Turkey are taking steps to expand the number of inspectors. Other possible steps include: 1) consolidating child labor laws to eliminate inconsistencies and confusion; 2) increasing civil and criminal penalties for violations of child labor laws; 3) improving training for inspectors; 3) develop partnerships with industry, labor groups, NGOs; increase public awareness.

The Importance of Education

- Universal and compulsory primary education is widely recognized as one of the most effective instruments for combating child labor. School is critical to remove children from dangerous work and provide them with fundamental life skills such as literacy, numeracy and critical reasoning. This is key not just for the children and their families, but for economic growth and development of all nations.
- Despite the clear benefits of education, about 20 percent (145 million) of the world's children six to 11 years old are out of school, and many of these are working.
- 12 of the 16 countries in the report do make primary education compulsory. But problems persist.
 - Less than 70 percent of children are enrolled in or attending primary school in five of the countries studied. In seven of the countries, less than 70 percent of the children that are enrolled in primary school reach the fifth grade.
 - Many countries do not have adequate educational resources, infrastructure and services.
 - Parents are often dependent on the earnings of their children.
 - Access is not equitable between rural and urban children.
 - Many children do not have access or cannot afford schooling.
- Positive steps by countries include 1) initiatives to make schools more accessible; 2) improve the quality of primary education' 3) improve quality, incentives to encourage families to send their children to school rather than work. Additional steps countries can take include:
 - Making primary education compulsory for all children.
 - Increasing educational expenditures to increase accessibility and quality.
 - Lower costs associated with education so parents can afford to send their kids to school.

Initiatives

The report provides very general descriptions of successful initiatives in the 16 countries.

The Administration's record

As you know, we have several budget initiatives that address the issues raised in the report and follow successful strategies for reducing and eliminating child labor.

Last year

- Last year, the President fought for and obtained a ten-fold increase in the U.S. contribution to the International Program for the Elimination of Child Labor -- a \$30

million contribution making the U.S. the world's leader in the fight to reduce the most intolerable forms of child labor.

This year

- This year, we will insist on maintaining that level of IPEC funding while adding a new \$10 million program -- "School Works" -- through U.S. AID to improve access to education to make it easier to get kids out of hazardous workplaces.
- In addition, the proposal calls for additional agents for the U.S. Customs Service to enforce the ban on the importation of goods made with forced or indentured child labor (almost doubling the enforcement budget from \$3 million to \$5).
- Finally, the proposal calls for an increase of \$4 million (above last year's \$3 million) for domestic enforcement of labor laws in industries vulnerable to child labor -- garment and "salad bowl" farms.

News Release

To Carl Hancock

456.2223



U.S. Department of Labor

Office of Public Affairs
Washington, D.C.

WAGE & HOUR DIVISION

CONTACT: CARL FILLICHIO
PHONE: (202) 219-8211

USDL: 99-73
FOR RELEASE: IMMEDIATE
THURSDAY, MARCH 25, 1999

"SALAD BOWL" GROWERS GET THE MESSAGE ABOUT CHILD LABOR

The Labor Department conducted 547 investigations in "salad bowl" commodities - lettuce, onions, tomatoes, cucumbers and garlic -- in 1998 and found 69 minors working in the fields. The investigations were part of targeted enforcement to combat child labor in agriculture.

"Our salad bowl initiative tells growers that we are serious about ending child labor in the fields," Secretary of Labor Alexis M. Herman said. "We follow a tough strategy of targeted investigations, court orders and our 'hot goods' authority to get growers' attention. We will continue to hold agricultural employers responsible."

Last year's salad bowl activities continued a multi-year initiative of targeted enforcement in salad bowl commodities. The crops are labor-intensive, hand-harvested and grown in most of the country. Labor law violations have been common.

The department has "hot goods" authority under the Fair Labor Standards Act to stop the interstate shipment of goods made in violation of the law. "Just the threat of stopping shipments of perishable food products is an effective tool," said John Fraser, acting administrator of the department's Wage and Hour Division. "We found that employers are more responsive to correcting problems and complying with the law."

-more-

In court actions taken during the 1998 fiscal year which ended last Sept. 30, the department obtained a consent decree forcing a Louisiana farm to stop employing children to pick strawberries. When the department sought a temporary restraining order against a Texas grower who hired 10 children, ages 6 to 11, to pick onions, the grower paid a \$9,600 fine and signed a compliance monitoring agreement to ensure that children would not be employed.

"The compliance monitoring contract is another tool for holding growers responsible for following the law," Fraser said. "We now have more than 30 such agreements with producers, processors and packers who will monitor all of their operations for violations of child labor and other labor laws."

"In all agricultural investigations, we found nearly half of the employers violated at least some part of the Fair Labor Standards Act or the Migrant and Seasonal Agricultural Worker Protection Act," Herman said. "At the same time that we are taking a tough stand through the courts and the use of hot goods, we are doing more to encourage voluntary compliance. We've asked several major producers to work with us to clean up this industry."

During 1998, the department conducted more than 2,000 investigations as part in agriculture and assessed fines totaling nearly \$1 million.

#

U.S. Labor Department news releases are accessible on the Internet at: <http://www.dol.gov>. The information in this news release will be made available to sensory impaired individuals upon request. Voice phone: (202) 219-7316.



<http://www.senate.gov/~harkin/>

(202) 224-3254

Media Advisory

FOR IMMEDIATE RELEASE
March 22, 1999

Contact: Patrick Dorton/Christopher Moody

**HARKIN, SECRETARY OF LABOR HERMAN UNVEIL "STATE OF THE
WORLD" REPORT ON ABUSIVE CHILD LABOR PRACTICES**
Iowa Senator Releases Fifth Report on International Child Labor

WASHINGTON — U.S. Senator Tom Harkin (D-IA) and U.S. Secretary of Labor Alexis Herman will unveil a major new Department of Labor report outlining the "State of the World" on the level and types of action being undertaken to reduce child exploitation in 16 countries where child labor is prevalent at a press conference on Thursday, March 25.

The report is the fifth in a series of international child labor reports mandated by Harkin as chair and now ranking Democrat on the Labor, Health and Human Services and Education Appropriations Subcommittee. The 16 countries reviewed in the report include: Bangladesh, Brazil, Egypt, Guatemala, India, Kenya, Mexico, Nepal, Nicaragua, Pakistan, Peru, the Philippines, South Africa, Tanzania, Thailand and Turkey.

The three main areas of focus include: law and enforcement, provision of universal and affordable primary education, and the advancement of initiatives targeted to ending abusive child labor. The report provides country-specific data on the size and age-range of child labor populations and the hazards faced by children in specific types of work. Also included is country-by-country analyses on current child labor laws, enforcement strategies, obstacles to enforcement, and efforts to strengthen laws and enforcement.

Harkin has been a long-time advocate for the eradication of abusive child labor. Harkin was instrumental in the passage of a historic provision in November of 1997 that authorizes the U.S. Customs Service to ban any goods made with indentured child labor from entering the United States. Harkin is the author of the *Child Labor Deterrence Act* which would ban the importation of goods made through child labor. Harkin's *Child Labor Free Consumer Information Act* calls on manufacturers to voluntarily label their products with a 'no child labor' guarantee to give consumers an educated choice when they make their purchases.

Details of the press conference are as follows:

THURSDAY, MARCH 25, 1999

10:30 a.m. EST

608 Dirksen Building

U.S. Senate

STATEMENT OF GENE SPERLING
ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS
June 9, 1998

The President is deeply committed to leading world efforts to eradicate child labor. The President applauds Senator Harkin for his persistent and urgent efforts to put this issue on the U.S. and world agenda. In his State of the Union address, President Clinton promised to ask other nations to join the United States "to fight the most intolerable labor practice of all -- abusive child labor."

This week, he took further steps to fulfill that commitment.

- First, President Clinton sent Labor Secretary Alexis Herman to Geneva to the annual meeting of the International Labor Organization with direct instructions to enlist the support of all ILO members in negotiating and adopting a convention designed to eliminate the most abusive forms of child labor -- forced or indentured work, work in hazardous conditions, and work by very young children. The United States' negotiating team, lead by Secretary Herman herself, will work with business, labor, and government representatives to the ILO to frame a targeted convention that can be widely ratified and effective in its purpose.
- Second, the President concurred in Secretary Herman's recommendation that we lead by example. Thus, we announced the Administration's support for Senator Harkin's efforts to modernize the domestic agricultural child labor laws. Secretary Herman and her team will work with Senator Harkin to find the right formula, but the goal must be clear: we will not tolerate even one child in the United States working under abusive conditions. Children should be laboring in the classroom -- not the factory or field.

These steps build on the President's earlier request that Congress: (1) increase 10-fold, to \$30 million, the U.S. support for the International Programme for the Elimination of Child Labor (IPEC); (2) increase by \$50 million funds for the Migrant Education Program to provide special services to migrant child and test new programs to get school age youth out of the fields; and (3) to increase the Department of Labor's budget by \$4 million to enhance enforcement of child labor laws in the agricultural sector. The President will continue to call upon world leaders to join him in the fight against child labor, as he did in his remarks at the Summit of the Americas.

VI. Conclusion

Child labor is a complex problem that requires comprehensive, multi-faceted solutions. This report has described some of the major strategies that are now being undertaken by governments and nongovernmental actors to eliminate child labor. Chapter II described the nature and extent of child labor in the 16 countries studied in this report: **Bangladesh, Brazil, Egypt, Guatemala, India, Kenya, Mexico, Nepal, Nicaragua, Pakistan, Peru, the Philippines, South Africa, Tanzania, Thailand, and Turkey.** Chapters III and IV addressed two of the most basic and traditional governmental approaches to preventing the premature entry of children into the workforce: the enactment and enforcement of child labor legislation and the provision of universal, affordable primary education. Chapter V described targeted projects, implemented or advanced by governments, that focus on removing children from exploitative work and providing them with educational opportunities. These projects, often involving partnerships among governmental and nongovernmental actors, frequently complement efforts in law enforcement and education.

A. Child Labor in the World

While poverty is the reason most often given for why children work, child labor also perpetuates poverty, since children who must begin work at an early age often compromise their future earnings potential. Today, hundreds of millions of children are working around the world, often in occupations that are clearly harmful to their health and future development. Many millions of these children work full time and in dangerous or abusive conditions, deprived of opportunities for education and the accompanying promise of a better future.

As explained in Chapter II, child laborers are seldom found in large and medium-sized enterprises, except in commercial agriculture. Child laborers most often work in small workshops, home-based operations, informal mining and quarrying enterprises, and a myriad of service sector jobs—usually out of reach of legislation and labor inspection. Some children work in occupations that are especially hidden from the view of enforcement authorities and society, such as domestic servants and child prostitutes. These children, usually separated from their families, often suffer the worst exploitation.

The magnitude of the global child labor problem has grabbed the attention of the international community over the past few years, provoking worldwide discussion of the issue. This represents an important change from a decade ago, when few governments or organizations even acknowledged the problem. Today, numerous international organizations, governments in developing and industrialized countries, and nongovernmental actors are developing and implementing strategies and initiatives to address child labor.

B. The Importance of Reliable Child Labor Data

Accurately identifying the extent of child labor within a country is an essential step towards the development of effective strategies for eliminating and preventing the problem. As discussed in Chapter II, there is a great need for reliable child labor data—not only to assist governments in developing solutions but also to enable them to monitor progress. Significant problems in the collection and reporting of child labor data remain, but with the assistance of the International Labor Organization (ILO), efforts are now underway to improve data quality.

Some of the efforts being undertaken by individual countries to improve the accuracy of child labor data include:

- conducting specialized national child labor surveys with the assistance of the ILO;
- using standard definitions and methodology for collecting and reporting child labor data, based on those developed by the ILO's SIMPOC program and tested in several countries; and
- institutionalizing the regular collection of child labor data by integrating a child labor component in o periodic labor force surveys.

C. Enactment and Enforcement of Child Labor Laws

As described in Chapter II, all 16 countries studied for this report have laws prohibiting certain forms of work by children under a specified age and regulating the conditions of work for older children. Many of these countries have also ratified a number of international instruments addressing child labor, including ILO Convention No. 138 (Minimum Age for Employment) and the U.N. Convention on the Rights of the Child (CRC).

Chapter III outlined the basic and hazardous minimum work ages in each of the 16 countries, while Appendix D identified relevant child labor provisions in the laws of each of these countries. The minimum age for employment in these countries varies from 12 (**Bangladesh**, **Peru**, and **Tanzania**) to 16 years (**Kenya**). In some countries, there is one basic minimum work age, while in others, there are several age standards, depending on the industry or sector. Child labor legislation often applies only to certain sectors or exempts entire industries or occupations. The sectors most frequently excluded are those where the highest numbers of working children are found, such as small-scale agriculture, domestic service, and small-scale manufacturing. For example, in **Kenya**, the minimum work age of 16 years applies only to certain industrial undertakings. Likewise, in **India** and **Pakistan**, the minimum work age of 14 applies only to certain specified occupations and processes. In **Nepal**, the minimum work age of 14 does not apply to certain enterprises, such as plantations and brick kilns. Exceptions are also made in some countries for apprenticeships or educational work. In **Brazil**, for example, children under 14 are prohibited from working, except as apprentices. Employers sometimes use such exceptions to exploit children as a source of cheap and compliant labor.

All 16 countries studied have a minimum age for hazardous work, varying by country from 12 to 21 years. Some countries have a single minimum age for hazardous work, while others specify several such ages, depending on the type of work.

Some countries have a multitude of laws addressing child labor, often spanning decades, that may be inconsistent with one another or confusing to implement and enforce. In addition, inadequate fines and penalties for child labor law violations often undermine their overall effectiveness.

One of the most serious issues relating to child labor laws is their inadequate enforcement by many governments. In many countries, labor inspection is not a priority. Labor inspectorates often lack the vital resources and staff needed to reach remote areas and effectively monitor the child labor situation. Inspectors often receive little training, if any, and are often poorly paid, making them an easy target for corruption. In addition, they may not be motivated to enforce child labor laws if they do not perceive the employment of children as a problem, or believe that it is a necessary ill for many indigent families. Inspectors who do attempt to enforce labor laws may be faced with public indifference and hostility from employers.

A number of countries studied (including **Bangladesh, Brazil, the Philippines, South Africa, and Thailand**) have recently made or are considering changes to their child labor laws, including increasing the minimum age for employment, adopting uniform child labor regulations, and expanding coverage of child labor laws to additional sectors or occupations. Some countries (such as **Brazil, Kenya, Mexico, the Philippines, Tanzania, and Turkey**) are focusing on strengthening enforcement by increasing the number of labor inspectors, improving training, or implementing new strategies.

The fact that large numbers of children are still working, many under exploitative or hazardous conditions indicates that significant action in the area of law and enforcement is urgently needed. Some countries faced with considerable numbers of child laborers are now taking steps to address shortcomings in their legislation and enforcement. Possible efforts in this area include:

- consolidating child labor laws and regulations in order to eliminate inconsistencies and confusion;
- increasing the legal age of employment to conform with international standards;
- increasing civil and criminal penalties for violators of child labor laws;
- improving training of labor inspectors, providing additional resources for investigations, and creating specialized inspection units that deal with child labor issues;
- developing partnerships with industry, labor groups, and NGOs to assist in identifying and preventing the exploitation of children; and

- increasing public awareness about child labor by informing the public about applicable child labor laws and penalties.

D. Access to Universal Primary Education

Universal primary education, as noted in Chapter IV, is widely recognized as an important means of preventing and eliminating child labor. No country can successfully end child labor without making education compulsory and accessible to all. Children who are required to attend school are less likely to be engaged in exploitative work and are more likely to be informed of their rights. Education, over time, can provide children with the skills and knowledge necessary to become productive adults and improve their employment and earnings prospects. Despite the obvious benefits of education, tens of millions of children do not attend school. Most of these children are working.

Twelve of the 16 countries studied for this report have national laws making primary education compulsory (**Bangladesh, Brazil, Egypt, Guatemala, Mexico, Nicaragua, Peru, the Philippines, South Africa, Tanzania, Thailand, and Turkey**). The number of required years of schooling varies by country, from five (**Bangladesh**) to 11 years (**Peru**). Several countries, including **Egypt, South Africa, and Turkey**, have also recently passed laws extending their years of compulsory education.

In several of the countries studied for this report, the age for completion of compulsory education is not consistent with the minimum age of employment. When the minimum age for work is lower than the age for completing compulsory education, children might be compelled to abandon or neglect their studies and enter the workforce. In the opposite case, when the minimum work age is higher than that for completing compulsory education, children who are unable to continue their education must either remain idle or work illegally, thereby making illegal child labor more commonplace and acceptable.

In many countries, primary education is neither compulsory nor affordable. Schools are frequently not available or accessible to all children. Even when schools are available, the quality of education may be poor and the content may be perceived by many children and their families as irrelevant to their lives. For poor families who depend on their children's earnings to make ends meet, the opportunity cost of sending their children to school is often seen as too high. Parents' reluctance to send their children to school is often exacerbated by the various costs of education, including school fees, supplies, books, uniforms, meals, and transportation.

In the 16 countries studied for this report, significant numbers of children are not going to school. The most recent country data on educational attainment shows that less than 70 percent of children are enrolled in or attending primary school in five of the countries studied (**Guatemala, India, Nepal, Pakistan, and Tanzania**). In seven of the countries, less than 70 percent of children enrolled in primary school reach the fifth grade (**Bangladesh, India, Kenya, Nepal, Nicaragua, Pakistan, and South Africa**).

Government spending on education varies widely among the 16 countries studied. Data on education spending by country for the most recent available year (1990 to 1997) shows that public expenditures on education as a percentage of GNP range from 1.7 percent (**Guatemala**) to 7.9 percent (**South Africa**). Education spending as a percentage of total government expenditures ranges from under 10 percent (**Bangladesh** and **Pakistan**) to over 20 percent (**Mexico** and **South Africa**), and primary school spending as a percentage of total public education expenditures ranges from 18 percent (**Peru**) to over 65 percent (**Egypt** and **Nicaragua**).

Access to education is often not equitable. Children in rural areas and those belonging to marginalized groups are frequently more affected by a lack of adequate educational infrastructure. Rural children are also more likely to work. Indeed, work can constitute a major impediment to children's attendance and successful completion of primary school. Working children have low enrollment and high absentee and dropout rates. These rates may be attributable to fatigue from long hours of labor, work related injuries and illnesses, and/or work schedules that are incompatible with school hours.

Some of the countries studied (**Brazil, Egypt, the Philippines, and Turkey**) have developed initiatives to make schools more accessible and improve the quality of primary education. Other countries (**Guatemala, India, Mexico, Nicaragua, Peru, and the Philippines**) are implementing programs that provide alternative educational opportunities for working children or ease their transition from work to school. Finally, some countries (**Bangladesh, Brazil, Egypt, Mexico, and South Africa**) are providing incentives to encourage families to send their children to school rather than to work.

While the impact of these policies and programs can only be assessed by future increases in the number of children attending and completing school, they provide an important indication of the level of government commitment to the provision of universal primary education in the 16 countries studied for this report. Steps that countries can take to accomplish this goal include:

- passing legislation making primary education compulsory for all children;
- increasing educational expenditures at the primary level to increase school accessibility and the quality of instruction (for example, enabling construction of new schools, improving existing infrastructure, and authorizing increases in teacher salaries and training);
- alleviating the costs associated with education that can prevent poor families from sending their children to school by providing transportation, subsidizing the costs of school meals, uniforms, supplies, and books, and eliminating school fees; and
- eliminating inconsistencies between child labor and compulsory education laws.

E. Targeted Child Labor Initiatives

As Chapter V described, numerous targeted initiatives are now being implemented or advanced by governments to remove children from exploitative work and provide them with educational opportunities. These targeted child labor projects are being implemented by a wide range of actors, including NGOs, international organizations, trade unions, employer associations, and the media. Indeed, international organizations such as the ILO and UNICEF are playing an instrumental role in combating child labor in many countries.

The targeted initiatives discussed in Chapter V facilitate and complement efforts in law and enforcement and education. While the projects described in Chapter V focus on efforts implemented or advanced by governments, it is important to note that numerous NGOs around the world are independently undertaking significant initiatives to prevent and reduce child labor. The importance and value of such efforts cannot be overstated. In some instances where governments have failed to prevent adequately the exploitation of children, nongovernmental actors are playing major roles in helping working children and their families. Ultimately, however, governments have the greatest responsibility for eliminating child labor as well as the broadest resources for addressing the problem.

Several of the targeted child labor projects described not only remove children from exploitative work situations, but also provide supportive services such as educational opportunities for the children and income generation alternatives for their families. Often such multi-faceted and comprehensive programs are the most effective in eliminating and preventing the exploitation of children. Public awareness and education campaigns can also play an essential role. Because child labor is a complex problem, requiring comprehensive solutions, the participation of all social actors—including families, public officials, labor unions, industry groups, NGOs, and the international community—is necessary.

Chapter V provided an illustration of the types of efforts now underway to remove children from exploitative work. Many of these projects focus on eliminating child labor in a particular industry or sector, while some combat child labor in many sectors and areas. These projects vary in size, scope, and emphasis. In agriculture, projects described include initiatives to remove children from work in **Tanzania's** tea estates and tobacco farms, **Brazil's** sisal plantations, and **Mexico's** fruit and vegetable farms, as well as programs to eliminate rural bonded child labor in **Nepal** and **Turkey**. In manufacturing, projects described include initiatives in the **Bangladeshi** garment industry, the soccer ball industry of **Pakistan**, **Nepal's** carpet industry, and **Brazil's** shoe industry. A project to reduce child labor in the brick making and stone quarrying industries in **Peru** is also described. Finally, several efforts targeting child domestic workers, child commercial sex workers, trafficked children, and children living and working on urban streets in **Brazil**, **Kenya**, **Nepal**, **Nicaragua**, **Peru**, the **Philippines**, **Thailand**, and **Turkey** are described.

Chapter V also described several multi-sectoral initiatives to combat child labor through the rescue, removal, and rehabilitation of children from exploitative work. These initiatives include projects in **Brazil** to stop children in rural areas

from working and assure that they attend school on a regular basis, in **India** to establish nonformal schools and release thousands of children from hazardous work, and in the **Philippines** to rescue children from exploitative work.

Key elements of targeted child labor projects include:

- targeting child labor in sectors or occupations that are hazardous and harmful to a child's development;
- removing children from exploitative work and providing them with alternatives, such as education or vocational training;
- providing income-generating opportunities for families of former child laborers;
- establishing partnerships among governmental and nongovernmental actors and international organizations such as the ILO and UNICEF and drawing on participants' respective expertise and resources; and
- raising awareness among vulnerable groups about children's rights and the dangers of premature entry into the workforce.

F. Final Comments

This report has attempted to illustrate the extent to which the 16 countries are currently addressing their child labor situations through the enactment and enforcement of child labor laws, the provision of universal primary education, and the development of and involvement in targeted child labor initiatives. A government's participation in such efforts can provide an indication of its commitment to combating child labor. Accurately determining the extent and nature of child labor within each country is also essential in adequately addressing the child labor problem.

There has been a significant increase in international concern regarding the plight of working children around the world. Many countries with child labor problems have not only acknowledged the problem but have begun to develop and implement comprehensive strategies to combat the exploitation of children. International organizations such as the ILO and UNICEF are heavily involved in such efforts. It is important, however, to monitor and measure the effectiveness of these efforts, since successful strategies can and should be replicated elsewhere.

The information provided in this report can serve as a framework for further study and evaluation of the progress being made toward eliminating child labor in the countries studied. Ultimately, the best way to determine such progress is by documenting a reduction in the overall number of working children and an increase in the percentage of children attending school and completing at least a primary education.

March 30, 1999

MEMORANDUM FOR GENE SPERLING

FROM: CARL HAACKE

SUBJECT: Economic events

Dow Jones Industrial Average

The Dow Jones Industrial average closed at 10,006.78 Thursday night, over 200% above its closing on Jan. 20, 1993 at 3,242. The *New York Times* (3/30) reported: "Back in 1990 the U.S. share [of world profits] was 36 percent; last year it was 44 percent," said Jeffrey M. Applegate, chief investment strategist at Lehman Brothers in New York.

The article raises concerns that a growing portion of American's investments are devoted to 30 well-known companies in the Dow. Others have raised concerns that while the Dow has risen 8.99 percent for the year, the Russell 2000 index of small stocks has dropped 5.26 percent creating a large performance gap.

The Wall Street Journal noted that, in the Dow's 103 year history, there has never been another bull market so long and only one so powerful, the one that ended in 1929. By most reckoning the current bull market started in October 1990 and has since risen 300 %.

There are two major economic events this week:

1) On Wednesday, March 31, final GDP for 4th quarter 1998 is expected to be revised up to 6.3 % from 6.1 % after increasing 3.7 % in the third quarter.

2) The unemployment rate is expected to decline to 4.3 % in March, from 4.4 % in February. Payroll employment is expected to grow by 200,000 after growing by 275,000 in February and 217,000 in December. Average hourly earnings are expected to grow 0.3 % in March after only a 0.1 % increase in February and a 0.4 % increase in January

Here is a summary of all the events for next week:

Monday, March 31: Released

New Home sales have now dropped for three consecutive months, but still remain quite strong at 881,000 annualized units. Last year, 888,000 new homes were sold; 10.4% above 1997's total.

Tuesday, March 30: Released.

Consumer confidence from the Conference Board increased 0.8 to 132.9 in March from 132.1 the month before, and is in the top 6 percent of its historical range.

Wednesday, March 31:

Final GDP for 4th quarter 1998 is expected remain at 6.1 % after increasing 3.7 % in the third quarter.

Thursday, April 1:

Personal income is expected to increase 0.5% in February after growing 0.6 % in January, and declining 0.1 % in December.

NAPM survey is expected to decline slightly to 51.0 in March from 52.4 in February, but still indicate that manufacturing is expanding.

Construction spending is expected to be flat in February after growing by 1.6 % in January and 1.4 % in December.

Friday, April 2:

The Unemployment rate is expected to decline to 4.3 % in March from 4.4 % in February.

Payroll employment is expected to grow by 200,000 after growing by 275,000 in February and 217,000 in December.

Average hourly earnings are expected to grow 0.3 % in March after only a 0.1 % increase in February and a 0.4 % increase in January

ECONOMIC RELEASES FROM THE PAST WEEK.

- **Wednesday, March 24.**

New orders for durable goods dropped by 5.0 percent in February, far more than markets expected, and marking the largest decline since December 1991. This occurred after an increase of 3.5 percent in January. Most Economists have are not yet concerned by these figures, citing the increase of the National Purchasing Managers Index to 52.4-- indicating that manufacturing is expanding. **New orders for primary metals (which includes steel) showed a marked improvement, jumping 7.2 percent in February,** after declining 3 percent in January and 3.4 percent in December.

- **Thursday, March 25.**

Existing home sales remain quite strong at 5.02 million annualized units, only 20,000 units of the record set in January. While sales in February declined relative to January, existing home sales are advancing at a very rapid pace. The months' supply of existing single-family homes on the market continues to rebound from December's low. A strong economy and resulting high consumer confidence, as well as still low mortgage rates, point to continued strong sales in the near term. Source: National Association of Realtors.

The help wanted index remained high in February at 92, only slightly below the revised January figure of 94. One year ago the gauge measured at 92. There are notable regional differences in this picture. Help wanted advertising is trending up strongly in the South Atlantic, Midwest and New England, while hiring plans have weakened in the Mid-Atlantic, Pacific and East South Central.

Initial UI jobless claims dropped to 289,000 from the already low 299,000 and remained below 300,000 for the eighth consecutive week-- for the first time since 1973, a time when the labor force was 32% smaller than today. At 291,000, the four week moving average has now been under 295,000 for six consecutive weeks, a remarkable achievement. For the first time in over a year, no state reported an increase in claims of more than 1,000 for the week ending March 13.

- **Friday, March 26**

Consumer confidence from the Michigan Survey dropped slightly to 105.7 in March from 108.1 in February, but higher than the 103.9 in January, and still in the top 3 percent of its historical range.

STATE OF ECONOMY

GDP GROWTH in fourth quarter strong -- 6.1 percent. Led by private-sector (growth 4.0% since Clinton took office). Investment strong -- up 19.2 percent in fourth quarter-- marking the sixth year in a row of double digit business investment for the first time on record.

CEA PROJECTS Growth to moderate to a solid **2½-3½ percent** annual rate in the first quarter.

BLUE CHIP revised its GDP estimates upwards in March to **3.3 percent for 1999** from 2.9 percent in February, and slightly down in 2000 to 2.2 percent from 2.4 percent.

UNEMPLOYMENT rate is 4.4 percent -- the lowest peacetime unemployment in 41 years. The past week's initial UI claims remained low at 298,000, below 300,000 for the seventh week in a row -- the longest run of claims this low since 1974.

JOBS GROWTH is strong at **275,000** in February, totaling more than 18.1 million since Clinton started. *Caution*, Manufacturing declined 50,000, mostly in apparel and transportation.

REAL WAGES GREW (average hourly earnings) by 1.8 percent over the 12 months ending February and 6 percent since Clinton started.

INFLATION remains non-existent. The fourth quarter **GDP price index** rose 0.8 percent at an annual rate -- the lowest since 1959. The **Producer Price Index** fell 0.4 percent in February and the Core Producer Price Index remained flat in February. **CPI and core CPI** was up just 0.1 percent in February. Over past 12 months, CPI is up 1.6 percent, core is up 2.1 percent.

PRODUCTIVITY in nonfarm business surged at 4.6 percent in fourth quarter 1998 and 2.7 percent for 1998 -- the biggest increase since 1992 when the country emerged from a recession.

CONSUMER SPENDING is fueling the world economy at \$5.8 trillion in 1998, growing 4.8 percent above 1997 in real terms.

CONSUMER CONFIDENCE was up 0.8 index points to 132.9 in March, which is near a 30-year high. The index of present economic situation rose 5.5 points to 178.4 in February and is now the highest ever posted. The Michigan Survey dropped slight to 105.7 from 108.1, completing the eighth quarter in a row above 100, outlasting the prior record set during the mid 1960s.

TAX REFUNDS continue to run far ahead of last year with \$52.33 billion approved as of March 5, up 16 percent from a year earlier. The average refund rose to \$1,677 from \$1,450. WSJ, "Tax Report", Wednesday, March 17, 1999.

HOUSING STARTS of single family homes jumped 1.1 percent to 1.4 million in February the highest in 20 years -- this was offset by a sharp 6.3 percent drop in starts of apartments and other multifamily buildings. Over all housing starts slipped slightly 0.6 percent to 1.8 million.

MANUFACTURING: As you know, manufacturing has lost 330,000 jobs in the past 12 months, even though they are up 394,000 since Clinton took office. **The NAPM index rebounded in February to 52.4 percent from January from 49.5 -- indicating that the industry is expanding.**

INDUSTRIAL PRODUCTION rose 0.2 percent in February, and 0.2 percent for Manufacturing as a further sign of emerging strength in this industry. *Caution*, capacity utilization hit a 7 year low at 80.3 percent.

EXPORT PERFORMANCE UNDER THE CLINTON/GORE ADMINISTRATION

March 24, 1999

From 1992 to 1998, exports of U.S. goods and services are up 51 percent to a level of \$931 billion. In 1998, exports have declined slightly by 0.7 percent.

Excluding the Asian region that has suffered under the Asian economic crisis, US goods exports are up 4.1 percent year-to-date over the prior year's period. This compares to a slight decline of 1.2 percent when Asia is included.

Between 1992 and 1997, exports have accounted for one third of US economic growth. The Asian crisis has slowed down their growth in 1998.

Jobs supported by exports in 1998 were estimated at 11.6 million, 1.7 million higher than 1992. It has declined somewhat in 1998 from 1997 level of 12.1 million due somewhat to the Asian economic crisis.

Exports accounted for 1 in 6 new jobs between 1992 and 1997 and 1 in 5 manufacturing jobs are supported by US exports.

Exports to NAFTA partners is up 79.4 percent to \$235.3 billion (1992 to 1998). Imports ?

Exports to Mexico are up 94.6 percent 1992-1998. In 1998, they are up 10.7 percent from a year earlier. In 1997, Mexico displaced Japan as the U.S.'s 2nd largest export market. In 1998 exports to Mexico reached \$79 billion.

Exports to Canada are up 72.5 percent 1992-1998. In 1998, they are up 3.0 percent to \$156.3 billion.

Exports to Latin America, excluding Mexico are up 80.2 percent (1992 to 1998). In 1998, they are up 0.7 percent to \$63.4 billion.

Exports to Japan are up 21.1 percent (1992 to 1998). In 1998, they are down 11.7 percent to \$57.9 billion.

Exports to China are up 92.2 percent (1992 to 1998). In 1998, they are up 10.8 percent to \$14.3 billion.

Export to the Pacific Rim, excluding Japan and China are up 37.7 percent (1992 to 1998). In 1998, exports are down 17.4 percent to a level of \$95.3 billion.

Exports to the EU are up 38.6 percent (1992 to 1998). In 1998, exports are up 6.2 percent to \$149.5 billion.

THE CLINTON-GORE ECONOMIC RECORD: STRONG ECONOMIC GROWTH AND THE LONGEST PEACETIME ECONOMIC EXPANSION ON RECORD

February 26, 1999

America's Economy Continues To Grow Steady and Strong. Today, the Commerce Department revised estimates of GDP growth in the fourth quarter up from a strong 5.6 percent to an amazing 6.1 percent (at an annual rate). With the longest peacetime economic expansion in history, the lowest peacetime unemployment rate in 41 years, the lowest core inflation rate in over 30 years, and the highest homeownership rate in history, it is clear that President Clinton's three-part economic strategy of fiscal discipline, investments in people, and opening markets abroad is working for America's working families.

- **Strong 6.1 Percent Economic Growth In Fourth Quarter.** GDP growth in the fourth quarter was revised up to a strong 6.1 percent (at an annual rate). Since President Clinton took office, growth has averaged 3.4 percent per year -- relative to 1.3 percent per year under President Bush and 2.4 percent per year during the Reagan-Bush years.
- **Four Percent Private-Sector Growth Under President Clinton.** In the fourth quarter, private-sector GDP growth was up 6.5 percent. Since President Clinton took office, the private sector of the economy has grown an average of 4.0 percent per year -- compared to 3.0 percent under President Reagan and 1.3 percent under President Bush.
- **First Investment-Led Expansion In Three Decades.** In the fourth quarter, productive business investment grew a healthy 19.2 percent. Last year, productive business investment grew at a double digit pace (16.6 percent) -- that's six consecutive years of double digit business investment growth for the first time on record. And since President Clinton has taken office, business investment has been faster -- 12.4 percent per year -- than under any President since Kennedy.
- **Inflation -- Lowest Since 1959.** In the fourth quarter, the GDP price index rose 0.8 percent at an annual rate. Last year, inflation rose just 1.0 percent -- the smallest increase in 40 years.

President Clinton's Three-Part Economic Growth Strategy Is Working. Today's numbers show that we should continue with President Clinton's growth strategy:

1. **Maintaining Fiscal Discipline.** In 1992, the budget deficit was \$290 billion -- the largest dollar deficit on record. Last year, the budget surplus was nearly \$70 billion -- the largest dollar surplus on record. In his State of the Union address, President Clinton put forward his framework to maintain fiscal discipline by investing 62 percent of the projected surpluses in Social Security, 15 percent in Medicare, 12 percent in new Universal Savings Accounts, and 11 percent to meet America's future challenges. This is a fiscally responsible plan: in 2014, the debt held by the public would fall to its smallest level, as a share of GDP, since 1917.
2. **Investing in the American People.** For six years, the President has worked to expand educational opportunity because economic and job training are vital to a strong economy. For example, last month, President Clinton proposed a \$965 million three-part initiative to close America's skills gap. This initiative includes a dramatic increase in resources to help increase adult literacy, a five-year commitment to ensure that all dislocated workers can get the training and re-employment services they want and need to get back to work, and a significant increase in our investments to help disadvantaged youth stay on the right track and find good, high-paying jobs.
3. **Opening Markets Abroad and Leading The Global Economy.** Today's economic report shows clearly that the health of the world economies affect the health of America's economy. That's why the President worked with Congress to meet our commitment to the IMF, with a package of tough reforms to make the IMF more accountable, more focused on growth, and better equipped to address the economic crisis of the 21st century. Now the IMF is stronger and ready to act.

Employment and Unemployment Information

Updated: 2/5/99					
	Total	Priv.-Sct.	Mfg.	Con.	Autos
Jan. 1999	127347	107291	18544	6165	995
In Administration:	17,845	16,516	446	1,645	154
Jan. 1993	109502	90775	18098	4520	841
Per month	248	229	6	23	2
Since Budget:	16,390	15,174	500	1,465	163
Aug. 1993	110957	92117	18044	4700	832
Per month	252	233	8	23	3
2nd Term:	6,201	5,595	(13)	594	18
Jan. 1997	121146	101696	18557	5571	977
Per month	258	233	-1	25	1
Last 12 Months:	2,707	2,337	(280)	284	(7)
Jan. 1998	124640	104954	18824	5881	1002
Per month	226	195	-23	24	-1
This Year:	245	209	(13)	15	6
Dec. 1998	127102	107082	18557	6150	989
Per month	19	16	-1	1	0
Last 6 Months:	1,478	1,248	(50)	195	117
July 1998	125869	106043	18594	5970	878
Per month	246	208	-8	33	20
Last 3 Months:	820	712	(89)	153	(5)
Sept. 1998	126527	106579	18633	6012	1000
Per month	273	237	-30	51	-2
Last Month:	245	209	(13)	15	6
Dec. 1998	127102	107082	18557	6150	989

Percent in Private Sector		Reagan		Bush	Unemployment Rate	
In Administration	92.55%	Total Job Growth	15,990	2,509	Jan. 1993	7.3%
Since Budget	92.58%	Private-Sector	14,592	1,378	This Month	4.3%
2nd Term	90.23%	Manufacturing	(770)	(1,368)	African-American Unemp.	
Last 12 Months	86.33%	Construction	917	(662)	Jan. 1993	14.1%
This Year	85.31%	Autos	89	(46)	This Month	7.8%
Last 6 Months	84.44%	Total (Per Month)	167	53	Hispanic Unemp.	
Last 3 Months	86.83%	Total (% Growth)	2.04%	0.58%	Jan. 1993	11.3%
Last Month	85.31%				This Month	6.6%

Overall GDP Growth:

Fourth Quarter 1998:	6.1%
Third Quarter 1998:	3.7%
Second Quarter 1998:	1.8%
First Quarter 1998:	5.5%
Year-over-Year (1998):	3.9%
Q4-over-Q4 (1998):	4.1%
Under Clinton:	3.4%
Under Reagan:	3.0%
Under Bush:	1.3%

Private Sector Growth:

Fourth Quarter 1998:	6.5%
Third Quarter 1998:	4.1%
Second Quarter 1998:	1.4%
First Quarter 1998:	7.2%
Year-over-Year (1998):	4.5%
Q4-over-Q4 (1998):	4.8%
Under Clinton:	4.0%
Under Reagan:	3.0%
Under Bush:	1.3%

Producer's Durable Equipment:

Fourth Quarter 1998:	19.2%
Third Quarter 1998:	-1.0%
Second Quarter 1998:	18.8%
First Quarter 1998:	34.2%
Year-over-Year (1998):	16.6%
Q4-over-Q4 (1998):	17.1%
Under Clinton:	12.4%
Under Reagan:	4.1%
Under Bush:	1.9%

Personal Consumption:

Fourth Quarter 1998:	4.5%
Third Quarter 1998:	4.1%
Second Quarter 1998:	6.1%
First Quarter 1998:	6.1%
Year-over-Year (1998):	4.8%
Q4-over-Q4 (1998):	5.2%
Under Clinton:	3.6%
Under Reagan:	3.6%
Under Bush:	1.5%

Exports:

Fourth Quarter 1998:	20.1%
Third Quarter 1998:	-2.8%
Second Quarter 1998:	-7.7%
First Quarter 1998:	-2.7%
Year-over-Year (1998):	1.5%
Q4-over-Q4 (1998):	1.2%
Under Clinton:	8.1%
Under Reagan:	5.1%
Under Bush:	6.6%

Exports are up \$363 billion in real terms since the beginning of 1993.

GDP Price Index:

Fourth Quarter 1998:	0.7%
Third Quarter 1998:	1.0%
Second Quarter 1998:	0.9%
First Quarter 1998:	0.9%
Q4-over-Q4 (1998):	0.9%
Year-over-Year (1998):	1.0%
Under Clinton:	1.8%
Under Reagan:	4.1%
Under Bush:	3.6%

NOTE: IN 1998, THE GDP PRICE INDEX INCREASED 1.0% -- THE SMALLEST SINCE 1959.

Change in Inventory Investment (in 1992 chain-weighted dollars)

Fourth Quarter 1998:	\$47.8 billion
Third Quarter 1998:	\$57.0 billion
Second Quarter 1998:	\$38.2 billion
First Quarter 1998:	\$91.4 billion (highest on record)
Fourth Quarter 1997:	\$66.5 billion

In the fourth quarter, the change in inventories subtracted 0.4 percent off of GDP, after adding 0.9 percent in the third quarter.

Savings Rate:

Fourth Quarter 1998:	0.1%
Third Quarter 1998:	0.2%
Second Quarter 1998:	0.4%
1998:	0.5%
1997:	2.1%
1996:	2.9%
1995:	3.4%
1994:	3.5%
1993:	5.1%

Government Consumption/Investment:

Fourth Quarter 1998:	3.8%
Third Quarter 1998:	1.5%
Second Quarter 1998:	3.7%
First Quarter 1998:	-1.9%
Year-over-Year (1998):	1.0%
Q4-over-Q4 (1998):	1.7%
Under Clinton:	0.8%
Under Reagan:	2.9%
Under Bush:	1.2%

GROWTH FORECASTS

Blue Chip (2/10/99):

1999:	2.9%
2000:	2.4%

NOTE: Among 50 top economic forecasters, not a single one is predicting negative growth in 1999 (the lowest projection for 1999 is 2.0 percent). And the average of the 10 forecasters with the lowest projections is 2.4 percent.

Goldman Sachs:

1999:	3.1%
First Quarter 1999:	3.3%
Second Quarter 1999:	2.2%

Administration:

1999:	2.0%
2000:	2.0%

CBO:

1999:	1.8%
2000:	1.9%

1999 Real GDP Consensus Forecast Soars To 2.9%

FEBRUARY 1999 Forecast For 1999 SOURCE:	Percent Change 1999 From 1998 (Year-Over-Year)									Average For 1999			Total Units-1999		-1999- Net Exports (92 \$)
	1 Real GDP (Chained) (92 \$)	2 GDP Price Index	3 Nominal GDP (Cur. \$)	4 Consumer Price Index	5 Indust. Prod. (Total)	6 Dis. Pers. Income (92 \$)	7 Personal Cons. Exp. (92 \$)	8 Non-Res. Fix. Inv. (92 \$)	9 Corp. Profits (Cur. \$)	10 Treas. Bills 3-mo.	11 Treas. Notes 10-Year	12 Unempl. Rate (Civ.)	13 Housing Starts (Mil.)	14 Auto/Truck Sales (Mil.)	
Bear Stearns & Co., Inc.	4.0 H	1.2	5.1 H	2.1	4.5 H	3.2	4.0	7.3	8.8 H	4.4	4.8	4.3	1.65	15.9	-281.0
First Union Corp	3.6	1.4	5.0	2.2	2.8	3.1	3.7	7.8	2.0	4.4	4.9	4.6	1.60	15.3	-256.0
Conference Board	3.6	1.2	4.9	2.2	3.0	3.5	4.2	6.1	1.6	4.7	5.5 H	4.2 L	1.55	15.0	-295.0
Comerica	3.5	1.5	5.0	1.8	3.5	3.5	3.5	7.0	5.0	4.8	5.2	4.2 L	1.58	15.4	-220.0 H
LaSalle National Bank	3.4	1.6	5.1 H	2.0	1.0	2.8	3.6	8.5	1.5	4.1	5.0	4.4	1.48	15.2	-280.0
Bank One	3.4	1.6	5.0	2.1	2.9	3.5	3.8	4.6	8.4	4.5	5.1	4.2 L	1.61	15.9	-320.0
Brown Brothers Harriman	3.4	1.2	4.5	2.0	2.8	3.2	3.9	6.8	5.0	na	na	4.5	1.58	15.3	-307.8
Michael Evans, Kellogg School	3.4	1.1	4.5	2.0	2.7	3.4	4.1	9.2	0.9	4.5	5.1	4.2 L	1.62	15.7	-301.0
Dun & Bradstreet	3.4	1.0	4.4	1.6	2.4	2.9	4.8 H	10.8	0.5	5.2 H	5.3	4.5	1.57	15.1	-247.8
Merrill Lynch	3.4	0.8 L	4.3	1.7	1.8	3.1	3.8	10.1	3.8	4.4	4.8	4.5	1.56	15.2	-316.0
Standard & Poors Corp.*	3.3	1.3	3.9	1.5	3.1	3.7	3.9	5.0	-0.1	4.0	4.4	4.6	1.62	15.8	-302.7
Northern Trust Company	3.3	1.2	4.5	2.1	1.7	2.6	3.5	7.0	-0.2	4.2	4.8	4.6	1.70	15.0	-275.3
UCLA Business Forecasting Proj.*	3.2	1.3	4.5	2.1	2.3	3.8 H	3.9	9.0	-1.6	4.3	5.1	4.4	1.72 H	16.2	-329.5
Macroeconomic Advisers, LLC**	3.2	1.3	4.5	1.8	2.4	3.8 H	3.9	8.9	0.8	4.4	4.9	4.4	1.53	15.6	-306.0
Wells Capital Management	3.2	1.0	4.2	1.6	2.1	3.8 H	3.6	11.7 H	3.2	4.0	4.7	4.5	1.53	15.1	-313.0
National Assn. of Home Builders	3.1	1.7	4.9	2.3	1.6	2.5	3.7	8.6	-2.4	4.1	4.6	4.7	1.52	15.1	-288.0
BankAmerica*	3.1	1.7	4.8	1.9	2.1	3.1	3.2	7.2	-1.7	4.2	4.6	4.5	1.59	14.8	-292.0
Turning Points (Micrometrics)	3.1	1.3	4.4	1.7	2.1	3.3	3.8	8.7	0.3	4.3	4.8	4.4	1.69	16.5 H	-295.8
Morgan Stanley Dean Witter	3.1	1.2	4.4	1.7	2.3	3.7	3.5	7.4	2.9	4.9	5.3	4.6	1.40 L	15.4	-290.0
Moody's Investors Service	3.0	2.0 H	5.0	2.2	2.8	3.4	3.5	4.6	5.5	4.7	5.3	4.5	1.54	15.7	-277.0
DaimlerChrysler AG	3.0	1.6	4.6	2.1	2.0	2.7	3.4	8.1	3.3	4.5	5.0	4.7	1.43	15.4	-292.0
NationsBanc Montgomery Securities	3.0	1.6	4.4	1.8	2.3	2.6	3.2	7.0	4.0	4.5	5.2	4.6	1.53	15.0	-281.0
Fleet Financial Group	3.0	1.4	4.5	2.4	1.7	2.8	3.9	8.9	0.1	4.2	4.7	4.5	1.46	15.4	-305.0
Prudential Insurance Co.	3.0	1.4	4.4	2.2	2.6	2.8	3.2	10.0	5.0	4.6	5.4	4.7	1.46	na	-310.0
Chicago Capital, Inc.	3.0	1.4	4.4	1.9	4.2	2.7	3.0	5.0	5.9	3.8	5.1	4.3	1.60	15.3	na
Goldman Sachs & Co.	3.0	1.3	4.3	1.8	2.1	3.5	3.5	5.9	2.4	4.1	4.2 L	4.5	1.51	14.6	-329.2
General Motors Corporation	2.9	1.9	4.8	2.4 H	2.8	2.6	2.6	6.0	2.0	4.5	5.2	4.6	1.45	na	-290.0
Weyerhaeuser Company	2.9	1.5	4.4	2.0	3.2	3.0	3.8	11.1	-3.0	4.1	5.2	4.8	1.65	15.5	-335.0
U.S. Chamber of Commerce	2.9	1.5	4.4	2.3	2.0	2.5	3.5	8.6	na	4.3	4.9	4.8	1.50	15.0	-298.0
Eggert Economic Enterprises, Inc.	2.9	1.5	4.4	1.9	2.9	3.3	3.5	5.3	1.8	4.2	4.7	4.4	1.46	15.4	-285.0
DuPont**	2.9	1.4	4.4	1.0 L	2.1	3.0	3.5	7.8	0.0	4.3	4.8	4.9 H	1.50	15.5	-276.0
U.S. Trust Co.	2.9	1.1	4.0	2.1	2.3	3.0	3.4	5.6	-2.0	4.3	4.7	4.7	1.58	15.2	-296.0
Inforum - Univ. of Maryland	2.8	1.5	4.4	2.1	2.2	2.4	2.9	8.3	0.1	4.4	5.0	4.9 H	1.54	15.0	-293.0
Georgia State University*	2.8	1.3	4.2	2.4 H	1.6	2.6	2.5 L	4.9	4.2	4.4	4.5	4.5	1.52	15.3	-287.5
Prudential Securities	2.8	1.3	4.1	2.2	2.3	3.3	3.5	6.8	3.1	4.5	na	4.6	1.58	15.2	-311.3
Ford Motor Company*	2.7	1.7	4.5	1.8	1.6	2.7	3.7	8.4	na	4.5	5.3	4.6	1.55	na	-349.4
Motorola	2.7	1.3	4.1	2.2	2.8	2.9	3.4	5.4	na	4.5	4.7	4.5	1.59	15.3	-307.7
Kellner Economic Advisers	2.7	1.0	3.7	1.5	1.9	2.9	2.5 L	5.5	0.4	4.2	4.7	4.7	1.54	15.0	-300.0
National City Bank of Cleveland	2.6	1.3	4.0	2.1	1.6	2.8	3.3	5.0	0.0	4.3	4.6	4.6	1.60	15.6	-297.0
Eaton Corporation	2.6	0.8 L	3.4	2.0	2.4	2.3 L	3.2	4.9	3.1	4.4	4.9	4.4	1.58	14.8	-260.4
Wayne Hummer Investments LLC*	2.5	1.4	4.0	2.1	2.0	2.8	2.9	5.2	-3.5	4.2	4.7	4.8	1.49	14.9	-307.0
SOM Economics, Inc.	2.5	1.2	3.7	1.8	2.1	3.2	3.5	7.5	0.4	4.4	4.8	4.4	1.55	15.5	-305.0
WEFA Group	2.4	1.5	4.0	2.0	0.6 L	3.4	2.9	4.1	-0.4	4.2	4.6	4.5	1.50	14.8	-318.6
Deutsche Bank Securities	2.4	0.8 L	3.4	1.0 L	1.0	2.6	2.9	3.7	-5.0 L	3.6 L	4.4	4.7	1.60	13.7 L	-301.0
J P Morgan	2.3	1.3	3.6	2.2	1.1	2.7	3.4	3.6 L	-4.9	4.4	4.9	4.8	1.54	14.8	-316.0
Fannie Mae	2.2	1.7	3.9	2.1	1.7	3.4	3.9	7.2	-2.3	4.4	4.9	4.6	1.49	na	-312.7
Reeder Associates (Charles)	2.1	1.1	3.2	2.1	1.4	3.1	3.7	6.2	-5.0 L	4.5	4.8	4.6	1.60	14.5	-373.0 L
Chase Securities, Inc.	2.1	0.9	3.0 L	1.5	2.1	2.3 L	3.1	4.5	-3.0	4.1	4.5	4.8	1.50	14.8	-325.0
Econoclast	2.0 L	2.0 H	4.0	2.4 H	2.0	2.5	3.0	4.8	0.5	4.3	5.1	4.8	1.49	14.9	-320.0
1999 Consensus: February Avg.	2.9	1.4	4.3	2.0	2.3	3.0	3.5	7.0	1.1	4.3	4.9	4.6	1.55	15.2	-299.5
Top 10 Avg.	3.4	1.7	4.9	2.3	3.1	3.6	4.0	9.5	5.0	4.6	5.2	4.8	1.63	15.7	-272.0
Bottom 10 Avg.	2.4	1.0	3.7	1.6	1.4	2.5	2.9	4.6	-2.9	4.1	4.6	4.3	1.47	14.8	-325.9
January Avg.	2.4	1.4	3.9	2.0	1.8	2.8	3.2	5.3	0.4	4.3	4.9	4.7	1.53	15.1	-295.0
Historical Data 1995	2.3	2.3	4.6	2.8	4.9	2.8	2.7	9.6	17.9	5.5	6.6	5.6	1.35	15.1	-96.5
1996	3.4	1.9	5.4	3.0	4.5	2.8	3.2	9.3	11.6	5.0	6.4	5.4	1.48	15.5	-111.2
1997	3.9	1.9	5.9	2.3	6.0	2.8	3.4	10.7	9.0	5.1	6.4	4.9	1.47	15.5	-136.1
1998	3.9	1.0	4.9	1.6	3.7	3.1	4.8	11.9	na	4.8	5.3	4.5	1.62	16.0	-241.4
Number Of Forecasts Changed From A Month Ago:															
Down	1	21	4	17	5	5	3	4	6	5	14	33	5	4	24
Same	5	23	6	26	14	14	10	10	19	25	23	16	16	18	10
Up	43	4	39	6	30	29	36	35	21	17	8	0	26	22	14
February Median	3.0	1.3	4.4	2.0	2.1	3.0	3.5	7.0	0.7	4.4	4.9	4.6	1.55	15.2	-300.5
February Diffusion Index	93 %	32 %	86 %	39 %	76 %	75 %	84 %	82 %	66 %	63 %	43 %	16 %	72 %	70 %	40 %

*Former winner of Annual Blue Chip Economic Forecasting Award, sponsored by Charles H. Brunie and the Manhattan Institute, N.Y., NY. **Denotes two-time winner.

2000 Real GDP Consensus Forecast Rises To 2.4%

FEBRUARY 1999 Forecast For 2000 SOURCE:	Percent Change 2000 From 1999 (Year-Over-Year)									Average For 2000			Total Units-2000		-2000- Net Exports (92 \$)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	Real GDP (Chained) (92 \$)	GDP Price Index	Nominal GDP (Cur. \$)	Consumer Price Index	Indust. Prod. (Total)	Dis. Pers. Income (92 \$)	Personal Cons. Exp. (92 \$)	Non-Res. Fix. Inv. (92 \$)	Corp. Profits (Cur. \$)	Treas. Bills 3-mo.	Treas. Notes 10-Year	Unempl. Rate (Civ.)	Housing Starts (Mil.)	Auto/Truck Sales (Mil.)	
Bear Stearns & Co., Inc.	3.6 H	1.5	5.1	2.2	5.5 H	3.5	3.0	9.3	8.6	4.4	4.9	4.1	1.60	16.2 H	-292.0
Michael Evans, Kellogg School	3.2	1.5	4.8	2.4	2.7	3.6	3.6 H	7.6	1.0	4.3	5.5	4.1	1.61	15.8	-345.0
Chicago Capital, Inc.	3.1	1.7	4.8	2.1	5.3	2.7	3.1	5.0	5.7	3.2	5.2	4.1	1.60	15.6	na
Morgan Stanley Dean Witter	3.1	1.5	4.7	3.0	3.8	2.9	2.9	9.0	0.7	na	na	4.4	1.40	15.5	-326.0
Bank One	3.0	2.6	5.6 H	3.0	3.2	3.1	3.0	7.7	8.3	5.1	6.2 H	3.8 L	1.44	15.6	-366.0
NationsBanc Montgomery Securities	2.9	2.3	5.0	2.5	3.4	3.0	2.6	4.7	5.0	5.0	5.6	4.6	1.51	14.8	-264.0
Northern Trust Company	2.9	2.1	5.1	2.6	2.1	1.5 L	2.8	2.8	1.3	4.4	5.4	4.6	1.73 H	15.1	-268.3
Turning Points (Micrometrics)	2.8	1.8	4.6	2.1	1.8	2.7	2.7	4.5	4.6	4.5	5.0	4.6	1.60	15.7	-292.4
Reeder Associates (Charles)	2.8	1.6	4.4	2.1	-1.3 L	3.5	3.4	0.4	8.8	5.0	5.0	4.8	1.50	14.3	-386.0
Eaton Corporation	2.8	1.5	3.9	2.3	3.0	1.6	1.9	7.0	12.1	5.1	5.2	4.5	1.45	14.4	-228.7
First Union Corp	2.7	2.2	4.9	2.0	2.5	2.6	2.3	3.1	2.0	4.3	5.2	4.9	1.50	15.1	-216.0
UCLA Business Forecasting Proj.*	2.7	2.1	4.8	2.5	3.1	4.5 H	3.3	7.0	5.2	4.8	5.6	4.7	1.67	15.9	-375.5
Inform - Univ. of Maryland	2.6	2.1	4.8	2.4	2.9	2.6	2.5	8.7	2.9	4.6	5.1	4.9	1.55	15.1	-282.5
LaSalle National Bank	2.6	1.8	4.4	2.3	2.7	3.1	2.7	4.5	5.0	3.7	5.2	4.8	1.47	14.8	-285.0
Merrill Lynch	2.6	0.9	3.5	1.5	2.5	3.0	2.9	5.5	2.3	4.2	4.6	4.5	1.50	15.0	-370.0
Conference Board	2.6	0.2 L	2.9	2.8	2.2	3.6	2.8	5.1	-4.0	5.2	5.8	4.7	1.37	14.2	-337.0
Macroeconomic Advisers, LLC**	2.5	2.0	4.5	2.3	2.4	2.4	3.1	7.6	-1.1	4.4	5.2	4.7	1.42	15.6	-330.0
Comerica	2.5	2.0	4.5	2.3	3.0	2.8	2.8	7.0	5.0	5.3 H	5.7	4.0	1.55	15.0	-200.0 H
SOM Economics, Inc.	2.5	1.4	4.0	2.1	2.4	2.9	2.8	4.5	3.0	4.5	5.0	4.7	1.46	15.2	-317.0
Standard & Poors Corp.*	2.4	1.6	4.5	1.4	1.4	2.4	2.6	5.9	3.7	3.5	4.1 L	4.3	1.60	16.2 H	-302.3
Wells Capital Management	2.4	1.6	4.1	3.1 H	1.6	2.9	2.2	9.6	3.9	3.3	4.3	4.6	1.43	14.7	-367.0
DaimlerChrysler AG	2.3	2.4	4.7	2.5	2.4	2.3	2.4	3.9	4.9	4.6	5.3	5.0	1.40	na	-299.0
Fannie Mac	2.3	2.1	4.4	2.3	1.9	2.3	2.6	7.2	-3.9	4.4	5.1	4.9	1.49	na	-337.6
General Motors Corporation	2.3	2.1	4.4	2.6	3.0	2.5	2.5	8.0	4.0	5.1	5.5	5.2	1.40	na	-280.0
Wayne Hummer Investments LLC*	2.3	2.0	4.3	2.4	2.3	2.5	2.6	5.4	2.3	4.3	5.1	4.9	1.52	15.1	-296.0
Prudential Insurance Co.	2.3	2.0	4.3	2.3	3.0	2.4	2.4	12.0 H	4.0	4.6	5.7	5.2	1.44	na	-280.0
Eggert Economic Enterprises, Inc.	2.3	1.7	4.0	2.1	2.2	2.7	2.6	4.0	0.5	4.3	4.5	4.3	1.36 L	14.5	-298.0
National City Bank of Cleveland	2.3	1.6	4.0	2.2	2.0	2.4	2.5	4.0	3.0	4.1	4.8	4.8	1.50	15.5	-302.0
National Assn. of Home Builders	2.2	2.5	4.7	2.7	1.9	2.4	2.3	6.8	-2.7	4.0	4.7	5.0	1.48	15.2	-302.0
J P Morgan	2.2	1.3	3.6	2.1	0.2	2.2	1.5	-0.5	-2.0	4.1	4.6	5.6 H	1.50	14.9	-312.0
Moody's Investors Service	2.1	2.8 H	4.9	2.8	2.3	2.2	2.1	2.5	4.0	5.0	5.5	4.7	1.46	15.2	-276.0
Econoclast	2.1	2.3	4.4	2.8	2.5	2.6	3.1	5.3	8.0	4.5	5.3	4.7	1.49	15.0	-325.0
Dun & Bradstreet	2.0	2.2	4.2	2.3	2.5	2.7	2.6	7.6	-2.5	5.1	5.0	4.7	1.44	14.8	-306.0
DuPont**	2.0	2.1	4.1	2.0	2.2	2.5	2.5	0.3	3.1	4.5	5.1	5.2	1.45	14.7	-290.0
Ford Motor Company*	2.0	2.0	4.0	2.5	1.5	2.0	2.6	5.6	na	4.9	5.6	5.3	1.44	na	-416.8 L
Motorola	2.0	1.7	3.7	2.3	2.7	2.7	2.2	4.0	na	4.6	5.0	4.6	1.50	15.3	-298.7
Chase Securities, Inc.	2.0	1.2	3.2	1.2 L	na	na	na	na	5.0	na	na	na	na	na	na
Kellner Economic Advisers	2.0	1.0	3.0	1.5	2.2	2.4	2.2	5.0	2.5	4.0	4.5	4.8	1.49	14.9	-300.0
Fleet Financial Group	1.9	2.1	4.0	3.0	2.2	2.3	2.7	4.4	18.3 H	4.5	5.8	5.0	1.39	15.3	-335.0
Weyerhaeuser Company	1.9	1.9	3.8	2.4	1.6	2.6	2.8	5.2	-5.0	4.1	5.4	5.3	1.40	15.0	-380.0
BankAmerica*	1.8	1.9	3.8	2.1	1.1	2.0	2.0	6.3	-4.1	4.0	4.4	5.1	1.47	14.6	-292.0
WEFA Group	1.7	2.2	3.9	2.0	1.4	3.0	2.3	5.5	-3.0	4.4	5.0	4.6	1.43	15.0	-361.2
Georgia State University*	1.3	1.5	3.0	2.8	0.6	2.5	2.5	2.6	-2.4	4.6	4.7	4.7	1.48	15.0	-286.6
Goldman Sachs & Co.	1.0 L	1.3	2.4 L	1.2 L	-0.1	3.1	1.3 L	-1.7 L	-6.3 L	3.0 L	4.2	5.1	1.39	14.1 L	-304.4
2000 Consensus: February Avg.	2.4	1.8	4.2	2.3	2.3	2.7	2.6	5.3	2.7	4.4	5.1	4.7	1.49	15.1	-310.2
Top 10 Avg.	2.9	2.3	4.9	2.8	3.4	3.3	3.1	8.2	7.2	5.0	5.6	5.1	1.58	15.7	-266.7
Bottom 10 Avg.	1.9	1.3	3.4	1.8	1.1	2.2	2.1	2.3	-3.1	3.8	4.5	4.3	1.40	14.6	-362.5
January Avg.	2.3	2.0	4.3	2.4	2.3	2.6	2.6	5.1	2.3	4.4	5.1	4.8	1.47	15.1	-302.7
Number Of Forecasts Changed From A Month Ago:															
Down	10	16	11	13	16	7	11	7	8	10	10	22	8	5	17
Same	16	17	17	22	14	22	15	15	18	21	21	17	19	22	13
Up	15	8	13	6	11	12	15	19	14	9	9	2	14	10	10
February Median	2.3	1.9	4.4	2.3	2.3	2.6	2.6	5.3	3.0	4.5	5.1	4.7	1.48	15.1	-302.0
February Diffusion Index	56 %	40 %	52 %	41 %	44 %	56 %	55 %	65 %	58 %	49 %	49 %	26 %	57 %	57 %	41 %

*Former winner of Annual Blue Chip Economic Forecasting Award, sponsored by Charles H. Brunle and the Manhattan Institute, N.Y., NY. **Denotes two-time winner.

BASIC DATA SOURCES: *Gross Domestic Product (GDP), chained 1992\$, National Income and Product Accounts (NIPA), Bureau of Economic Analysis (BEA); *GDP Chained Price Index, NIPA, BEA; *GDP, current dollars, NIPA, BEA; *Consumer Price Index-All Urban Consumers, Bureau of Labor Statistics (BLS); *Total Industrial Production, Federal Reserve Board (FRB); *Disposable Personal Income, chained 1992\$, NIPA, BEA; *Personal Consumption Expenditures, chained 1992\$, NIPA, BEA; *Non-residential Fixed Investment, chained 1992\$, NIPA, BEA; *Corporate Profits Before Taxes, current dollars, with inventory valuation and capital consumption adjustments, NIPA, BEA; *Treasury Bills, 3-month, secondary market, bank discount basis, FRB; *10-Year Treasury note yield, FRB; *Unemployment Rate, civilian work force, BLS; *Housing Starts, Bureau of Census; *Total U.S. Auto and Truck sales (includes imports and all weight classes of trucks), BEA; *Net Exports of Goods and Services, chained 1992\$, NIPA, BEA



"Federiconi, Gaia" <Gaia.Federiconi @ gs.com>
04/01/99 03:37:57 PM

Record Type: Record

To: Carl Haacke/OPD/EOP

cc:

Subject: Goldman Sachs U.S. Economic Conference Call Invitation

The U.S. Economic and Financial Outlook

You are invited to participate in a

Goldman Sachs Economic Conference Call

MONDAY, April 5, 1999-10:30 E.D.T.

Please join

Bill Dudley, Ed McKelvey, and Rajib Pal,
who will discuss:

Inflation Watch: Still Benign, But Upside Risks Increasing
The Rising Specter of Protectionism
The Personal Saving Rate: A Decline by Any Measure

A QUESTION AND ANSWER SESSION WILL FOLLOW

TO PARTICIPATE,
PLEASE CALL

(973) 633-1010 or (888) 417-2319

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Weekly Commentary on Economic and Financial Developments

March 22 - March 26, 1999

Economics and Statistics Administration
Office of the Chief Economist
U.S. Department of Commerce

A Mixed Pattern in Domestic Borrowing

The Commentary this week reviews long-term trends in domestic borrowing and household net worth, since few major economic reports were released.

Net new borrowing by all nonfinancial sectors (relative to GDP) has grown at a slow pace during the current expansion. This performance reflects sizable, but offsetting, movements for individual sectors. Household net worth has surged, in part, because of the rise in equity prices.

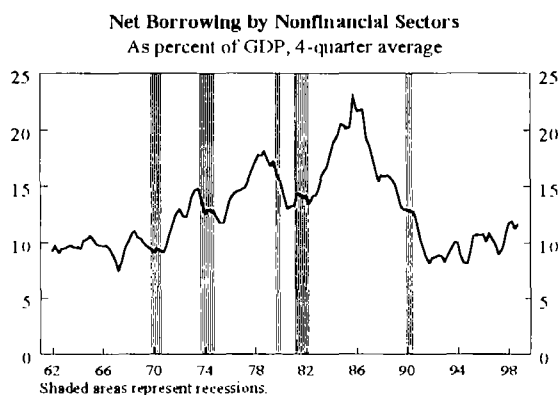
- Federal government borrowing has trended strongly downward since 1992 and, in 1998, the government shifted to repaying its debts.
- Household and business borrowing has trended upwards in the current expansion. These debts financed net investment in homes and consumer durable goods and in business plant and equipment.
- Acquisition of financial assets by households relative to income has trended downward since the mid-1980s and, as a result, their net financial investment relative to income has declined. This performance matches the downward trend in the personal saving rate.
- Household net worth rose 48 percent between 1994 and 1998, with higher equity values accounting for about half of the total increase.

The trends described here draw upon the Federal Reserve's Flow of Funds Accounts, which measure the acquisition of physical and financial assets throughout the U.S. economy. The trends reflect nominal values and are not adjusted for inflation.

Trends in Domestic Borrowing

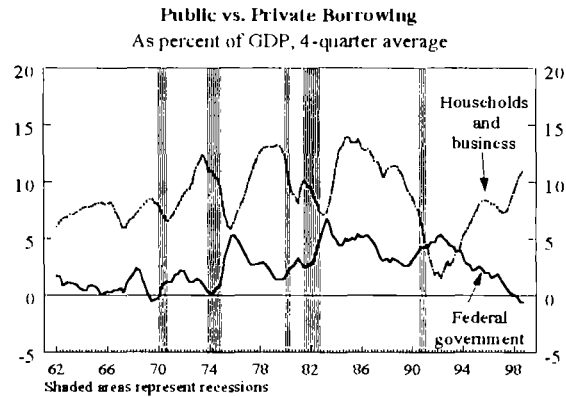
Relative to GDP, net new borrowing by domestic nonfinancial sectors has grown little during the current expansion.

- The chart below shows that net new borrowing by nonfinancial sectors rose to 11½ percent relative to GDP in 1998 from just over 8 percent in 1992-93.
- The relatively low level in 1998 and the modest net growth during this expansion contrasts sharply with the strong upturns that occurred during several previous expansions. Net new borrowing equals new debt less repayments of old debt.



The modest net increase in overall borrowing (relative to GDP) during the current expansion reflects nearly offsetting movements in the borrowing of individual sectors.

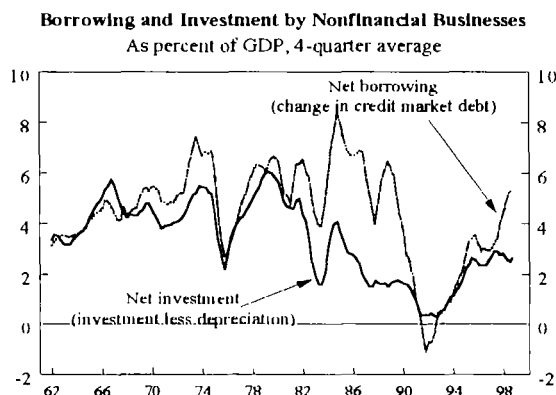
- The chart on the next page shows that the Federal government has been reducing its net borrowing since 1992 so that, in 1998, new borrowing was less than repayments.
- In contrast, net borrowing by households and by nonfinancial business trended strongly upward since 1992 to their highest levels since the mid-1980s.
- The chart highlights the inverse relationship between government and private borrowing during many business cycles. Government borrowing tends to rise sharply during the recessions (shaded areas) and to fall during expansions. Conversely, private borrowing falls during recessions and rises sharply early in expansions.



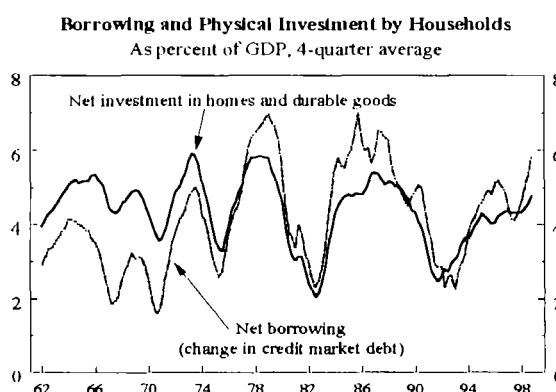
- The table below shows the size (in dollars) of these movements during the current expansion. Households and business accounted for most of the borrowing in 1998, the seventh year of this expansion.

Net Borrowing from the Credit Markets			
Billions of dollars			
	<u>1992</u>	<u>1998</u>	<u>Change</u>
Nonfinancial sectors	547	972	425
Federal government	304	-53	-357
Foreign	24	18	-6
State and local governments	31	77	46
Business	27	445	418
Households	161	485	324

- Movements in net borrowing by nonfinancial business usually reflect net investment in plant, equipment, and inventories (see chart at the top of page four). This pattern, however, diverged sharply during the 1984-to-1989 period -- a period when mergers and acquisitions were apparently funded to a greater-than-usual extent by debt.

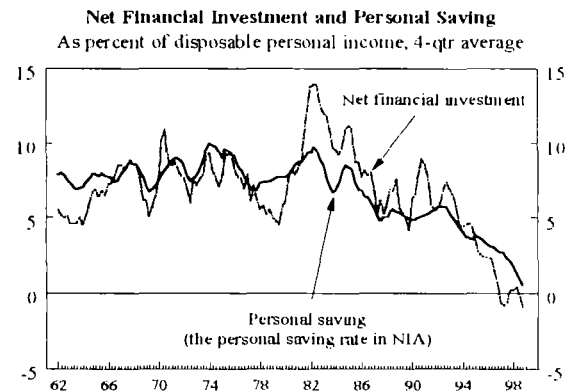
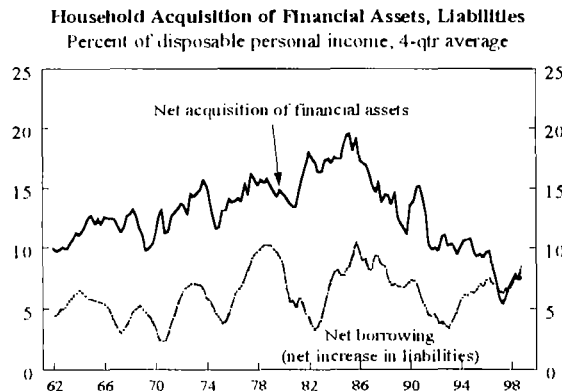


- The movements in household net borrowing (relative to GDP) over time fairly closely match their net investment in homes and durable goods (new purchases less the depreciation of existing homes and goods).
- This pattern indicates that households borrow mostly for investment and not for short-term consumption. However, the gap between the two lines in 1998 suggests that some current borrowing may be for short-term consumption.



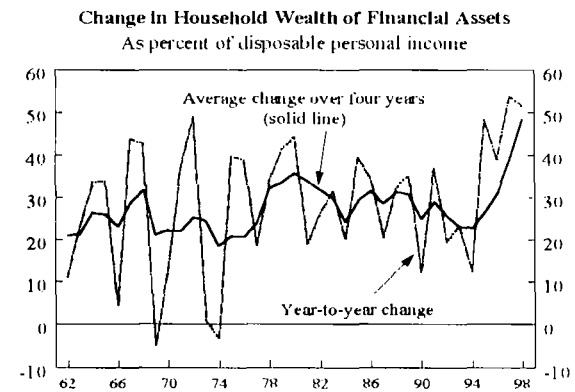
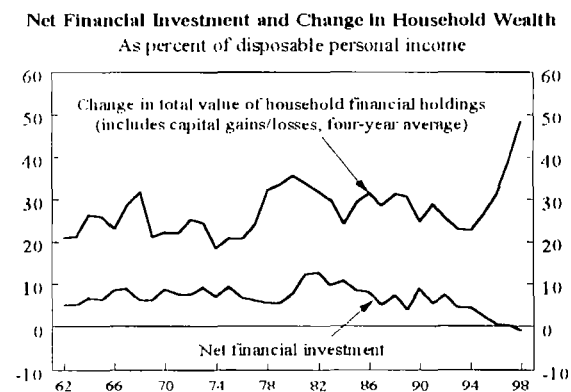
In contrast to the upward trend in household net borrowing (relative to personal disposable income) during this expansion, household net acquisition of financial assets has trended downward, a trend that began in the mid-1980s (see left chart at the top of next page).

- Net acquisition of financial assets shown in the chart includes only net new purchases and does not include capital gains/losses on existing financial assets.
- As a result, the net financial investment of households relative to income has trended downward since the mid-1980s (see right chart on next page).
- The right chart also shows that over the past 3½ decades, the longer-term movements in net financial investment match fairly closely the longer-term movements in personal saving.



A somewhat different picture of recent trends in household financial assets and liabilities emerges when capital gains and losses on existing assets are included.

- The left chart below compares household net financial investment (shown in the right chart above) with the change in the total value of household holdings -- net new holdings plus existing financial assets and liabilities. The change is over four years.
- The gap between the two lines widened in the mid-1990s, reflecting in part the strong upward trend in the value of equities. The gap between the two lines remained fairly constant prior to the mid-1990s.



- The left chart shows a 4-year change in household wealth because of the volatility of year-to-year changes (see right chart). Recently, the year-to-year changes have been consistently large.

The following table shows the changes in the components of total household net worth, including physical assets as well as financial assets.

- The value of household equities rose a large 139 percent between 1994 and 1998. The dollar change (\$6.3 trillion) accounted for 46 percent of the total dollar change in household assets and 53 percent of the total change in household net worth.
- These figures suggest that the surge in equity prices contributed importantly to the rise in net household holdings but clearly did not account for the total change.

Household Net Worth Trillions of dollars				
	<u>1994</u>	<u>1998</u>	<u>--1994-98 change--</u>	
			<u>Percent</u>	<u>Trillion\$</u>
Assets	29.5	43.0	46	13.5
Physical assets	10.3	12.9	25	2.6
Financial assets	19.2	30.1	57	10.9
Deposits, credit market instruments	5.1	5.8	13	0.7
Equity share at market value *	4.5	10.8	139	6.3
Other instruments	9.6	13.5	41	4.0
Liabilities	4.6	6.3	35	1.6
Household net worth	24.9	36.8	48	11.9
Household net worth as percentage of disposable personal income	496	610	23	---
* Includes both publicly-traded stocks and the estimated value of privately-held businesses.				

Forthcoming Data

(Mon.)	March 29	--	New Home Sales (February)
(Wed.)	March 31	--	GDP and Corporate Profits (1998Q4 Final)
		--	Manufacturers' Shipments, Inventories, and Orders (February)
(Thurs.)	April 1	--	Personal Income (February)
		--	Purchasing Managers' Survey (March)
		--	Construction Expenditures (February)
(Fri.)	April 2	--	Employment Situation (March)



UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
Office of Economic Conditions
Washington, D.C. 20230

To: Carl Haacke, NEC

Date: 3-26-99

From: DoC/ESA/ChEcon/OEC

Page 1 of 7

FROM: OFFICE OF ECONOMIC CONDITIONS

U.S. Department of Commerce
14th & Constitution Ave., N.W.
Washington, D.C. 20230
Telephone Number: (202) 482-4871
Fax Number: (202) 482-3726

COMMENTS: Weekly Commentary on Economic and Financial
Developments



"Federiconi, Gaia" <Gaia.Federiconi @ gs.com>
03/30/99 05:00:12 PM

Record Type: Record

To: Carl Haacke/OPD/EOP

cc:

Subject: Goldman Sachs Daily U.S. Economic Comment

DAILY FINANCIAL MARKET COMMENT 3/31/99 Goldman Sachs Economics Group

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* Predictions that fair value for the Dow Jones Industrial Average will be 20,000 points by 2004 are based on highly unrealistic assumptions about both corporate earnings and the sustainable equity risk premium. Further stock market gains on the scale seen in recent years could only come about if the equity risk premium shrank considerably further, most likely to a value of less than zero. With a negative equilibrium equity risk premium all but impossible to justify, such a development would substantially raise the chance of a severe stock market correction with very damaging and protracted effects on the U.S. economy.

En Route to 20,000?

In the most recent issue of Barrons, David Alger of Fred Alger Management predicts that fair value for the Dow Jones Industrial Average will be 20,000 points by 2004. This implies that the stock market will continue to appreciate at a rate of 15% per annum over the next five years. His calculation is based on the following assumptions: (1) Inflation will go to zero because of vigorous innovation and productivity growth. (2) The real long-term bond yield -- defined simply as the nominal yield minus headline CPI inflation -- will remain at its recent average of 4%, and the nominal bond yield will thus fall from 5.5% to 4%. (3) Earnings growth will average 8%. (4) The earnings yield on the S&P 500, which has fluctuated in a range of 50%-95% of the nominal bond yield over the last 15 years, will move to the median of this range, namely 70%. This implies an earnings yield of 2.8% in 2004. (5) The S&P 500 and the Dow Jones will move in lockstep.

Undoubtedly, the Dow Jones could double yet again in the next five years given Mr. Alger's assumptions. However, even investors who share Mr. Alger's belief that inflation is well and truly dead would be ill advised to take these assumptions seriously.

First, for nominal earnings to grow at 8% in an inflation-free environment, real earnings would have to grow at about three times

their historical average of 2.5%-3%. Such a pickup would be extremely surprising in an environment already characterized by strong real wage gains and weak pricing power, which in 1998 led to a 5.1% decline in S&P 500 earnings per share (a 2.1% decline if write-offs are excluded). Looking further ahead, real corporate profits tend to grow at the same rate as real GDP. With potential GDP growth of about 2.5%-3%, it seems all but impossible for real S&P 500 earnings per share to grow by more than 4% a year over the long haul, even if large corporations continue to outperform smaller firms. Thus, Mr. Alger's earnings forecast exceeds any realistic long-term earnings growth forecast at least by a factor of two.

Second, the earnings yield on the S&P 500 should be compared to the real bond yield, not the nominal bond yield. A lower real bond yield justifies higher equity market valuations because it reduces the yield on alternative investments without affecting corporate earnings expectations. However, lower inflation typically reduces nominal earnings growth one-for-one, so that the effects on valuations of lower nominal bond yields and lower earnings growth cancel out. Thus, a fall in the nominal bond yield does not support higher equity market valuations unless it also involves a fall in the real bond yield. By the same token, any relationship between the nominal bond yield and the earnings yield observed in a world with positive inflation is likely to break down in a world without inflation.

A fall in the earnings yield to 2.8% with a (nominal and real) bond yield of 4% could only occur if the equity risk premium shrank further from its low present level, most likely to a value below zero. One simple and intuitive proxy for the equity risk premium - used for instance by the Federal Reserve -- is the one-year-ahead expected earnings yield minus the real bond yield, measured as the difference between the nominal bond yield and long-term expected inflation according to the Philadelphia Fed's Survey of Professional Forecasters. The rationale is that the risk premium will be zero if one dollar buys the same amount of inflation-adjusted earnings in the bond market and the stock market. At present, long-term expected inflation is expected to be at 2.3% and the nominal bond yield is 5.3%, so that the real bond yield stands at 3%. With the earnings yield on the S&P 500 given current prices and I/B/E/S forecasts for 1999 earnings at 4%, the current risk premium is about 1% on the Fed's measure. If the real bond yield rises but the earnings yield falls any further, the equity risk premium on this measure would fall to a value below zero.

We have presented our own thoughts on the equity risk premium in the March issue of the Pocket Chartroom. Before the 1990s, the equity risk premium fluctuated around 6%, considerably more than what could be explained by financial economists on the basis of the volatility of equity returns and the available data on investor preferences. Given this and the increase in macroeconomic stability seen in the 1990s, we consider the shrinkage of the risk premium from these elevated levels as largely appropriate. However, it is hard to argue that a further shrinkage in equity risk premium, or even a negative risk premium, would be appropriate from a fundamental perspective,

since the greater macroeconomic stability now appears to be quite fully priced.

Ironically, Mr. Alger just might be correct in predicting a continuation of the runaway bull market seen in recent years, though not for the fundamental reasons that he suggests. The point to note is that a fall in the equity risk premium will involve higher stock market returns initially, but lower returns when the risk premium is again stable at a lower level. However, many investors seem to have mistaken the rise in stock prices during the 1990s not as the byproduct of a shrinking equity risk premium, and thus lower expected returns going forward, but as a signal of continued high expected returns. Surveys suggest that individual investors expect annualized stock market returns to continue at a rate of 15% or more, even though they can expect only about 7% per year if the equity risk premium remains stable. Since it may take a long time until investors revise their elevated expectations, it is just possible that equity returns will far exceed the more moderate returns predicted by our Portfolio Strategy Group for a while longer. With a negative value for the equilibrium equity risk premium all but impossible to justify, such a development would substantially raise the probability of a severe stock market correction with potentially very damaging and protracted effects on the U.S. economy.

Jan Hatzius

Upcoming Economic Events

Indicator	Estimate	Consensus	Last
Real GDP	+ 6.1%	+ 6.1%	+ 6.1%
Chain-Weight Price Index	+ 0.7%	+ 0.7%	+ 0.7%
After-Tax Corporate Profits	+ 4.9%	n.a.	-0.9%
Factory Orders (Feb)	-2.7%	-1.0%	+ 1.7%
Chicago Purchasing Managers Index	53.0%	52.5%	52.6%



"Federiconi, Gaia" <Gaia.Federiconi @ gs.com>
03/29/99 05:37:50 PM

Record Type: Record

To: Carl Haacke/OPD/EOP

cc:

Subject: Goldman Sachs Daily U.S. Economic Comment

DAILY FINANCIAL MARKET COMMENT 3/30/99 Goldman Sachs Economics Group

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* We expect the Commerce Department to announce a quarter-to-quarter increase of nearly 5% (not annualized) in after-tax corporate earnings as part of Wednesday's GDP revision. In a market where earnings disappointments have become the rule of the day, for the aggregate S&P figures as well as for individual company results, this positive news on the profit front might get more than its usual brush-off.

* However, the profit increase does not represent a sustained improvement in profit growth, especially if GDP growth slows down in line with our expectations. Rebound from the GM strike of the third quarter was a contributing factor to last quarter's strength, both in output and in profits.

GDP Report Should Show a Q4 Rebound in Profits

Normally, the equity market hardly takes notice of the economy-wide profit figures that accompany revisions to quarterly data on GDP, focusing instead on the earnings per share data for the companies in the Standard and Poor's 500 as a proxy for the earnings of companies that are publicly traded. However, in a market conditioned by earnings disappointments and downward revisions lately, the preliminary estimate of the broader figure, which we expect will look quite firm, could give the market a boost.

The figure that usually crosses the tape first is the quarter-to-quarter change in after-tax profits, without any adjustments. Based on the existing figures for GDP, which we do not expect to change much, our best estimate of this figure is a 4.9% increase. Unlike virtually all other elements of the GDP data, this change is not expressed at an annual rate. It embodies assumptions of minimal change in (a) net factor income, which represents the difference between GDP and GNP, (b) net interest payments by the corporate sector, and (c) the ubiquitous statistical discrepancy. Given that S&P earnings were on the disappointing side in the fourth quarter, the risk is that our estimate for total corporate profits could be

too high. However, the correlation coefficients between the two sets of data (.14 since 1990 with reported S&P earnings and .41 with our Portfolio Strategy Group's estimate of operating earnings) are not strong enough to modify our estimate.

If the market does respond favorably to this news, will the response be justified? Not entirely, in our view. The economy was super strong in the fourth quarter, with real GDP rising at a 6.1% annual rate. Under any circumstances, this rate of growth could not be sustained for long -- and especially not this deep into a business expansion. Moreover, growth in the fourth quarter benefited from the rebound in auto manufacturing and related activity following the strike at General Motors during the early summer as well as from unusually mild weather early in the winter. Most of these benefits probably flowed to the bottom line.

Even with the fourth-quarter bounce, 1998 will hardly go down in the history books as a great year for corporate profits. For example, our estimate implies that after-tax earnings slipped 0.7% for the year as a whole -- the first annual decline since 1989. Some of this was due to extreme weakness in prices of oil and other commodities, which caused losses on inventories of such items as well as in top-line earnings for the producers in these industries. Correcting for the losses sustained on inventories, and also for distortions due to accelerated depreciation of capital, we estimate that corporate earnings rose 3.4% in 1998 -- better but hardly spectacular and a real come-down from 1997, when they increased 9.1%.

Companies in the Standard and Poor's 500 fared even worse. Earnings per share for this group of companies fell 5.1%. Even when write-offs are excluded, earnings on an operating basis fell 2.1%, as noted recently by our Portfolio Strategy Group. However, they expect the results for 1999 to improve, with operating earnings per share rising 7%, as some of the special factors holding down profit growth in 1998 disappear. In addition, the decline we expect for the dollar will give companies some translation benefits.

In our view, the main factor that caused the slowing in economy-wide profit growth -- a large gap between the rates at which labor costs and prices are rising -- will continue to operate in 1999. As a result, our outlook for this broader measure of profits is more subdued -- an increase of only about 1-1/2%. Gaps of this magnitude between the two measures are not at all unusual. On average, the difference in growth rates has been 6.5 percentage points since 1990 -- one percentage point larger than what we are expecting in 1999 -- although only once since 1993 has the difference been larger than 3 points.

Edward F. McKelvey

Upcoming Economic Events

Indicator/Event	Estimate	Consensus	Last Report
FOMC Meeting			

Consumer Confidence (Mar) 130.0 131.4 132.1

The FOMC is quite unlikely to change policy at its March 30 session, and will probably also decide to keep the intermeeting directive in a neutral posture. Thus, the announcement, at about 2:15 p.m., will most likely simply say that the meeting has ended.

Confidence probably slipped a little in March but remained very high by historical standards.

Weekly Commentary on Economic and Financial Developments

March 15 - 19, 1999

Economics and Statistics Administration
Office of the Chief Economist
U.S. Department of Commerce

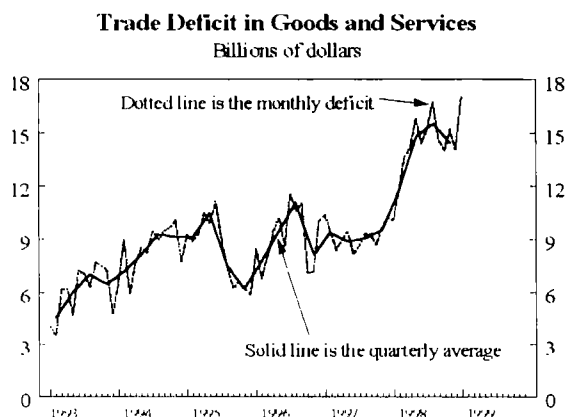
A Record Trade Deficit

Strong domestic growth relative to the trends in overseas economies continues to widen the U.S. trade deficit in goods and services. Inflation, however, continues to show no evidence of upward pressure.

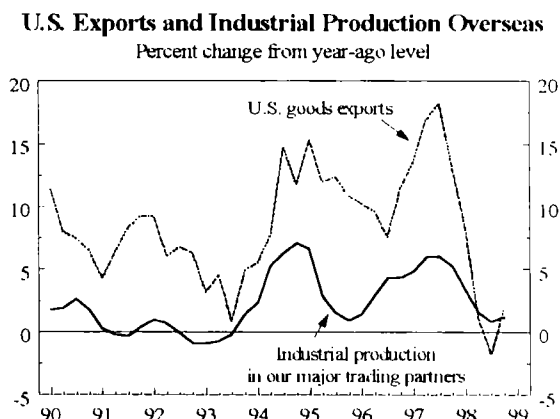
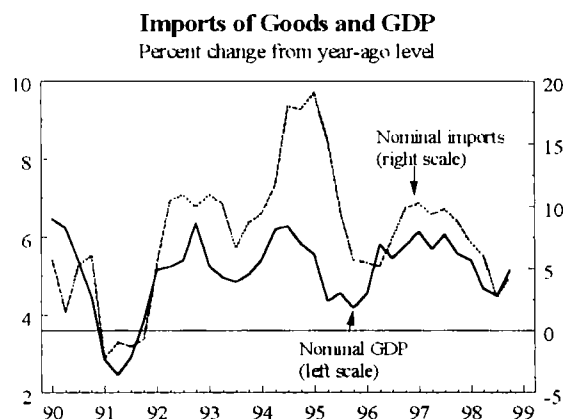
- The U.S. trade deficit in goods and services rose to a monthly record of \$17.0 billion in January. Imports have risen in line with domestic growth, while gains in exports have been limited by weak overseas economies.
 - Industrial production rose 1.6 percent during 1998, and modest growth continued in early 1999. Production of goods has been strongly affected by international developments and trade.
 - Growth rates among industries vary significantly. Production of durable goods has grown much more rapidly than output of nondurable goods, reflecting strong gains in productivity that have led to falling prices for durable goods as a group.
 - Inflation remains modest. Consumer prices rose only 1.2 percent at an annual rate in the last three months.
-

A Jump in the Deficit

The U.S. trade deficit in goods and services rose to a monthly record of \$17 billion in January. The increase reflected an upturn in imports and a further decline in exports.



- The uptrend in imports reflects the growth of the domestic U.S. economy. The left chart below shows that over the last 10 years, growth in nominal imports of goods has generally matched the pattern of growth in nominal GDP. On average, however, imports have grown more rapidly than GDP.



- Similarly, growth in U.S. exports depends substantially on the strength of economic activity abroad. The right chart above shows that growth in our exports of goods, adjusted for inflation, tends to follow the pattern of industrial production abroad. The index of production in the chart is an export-weighted average of production in several major markets for U.S. goods.

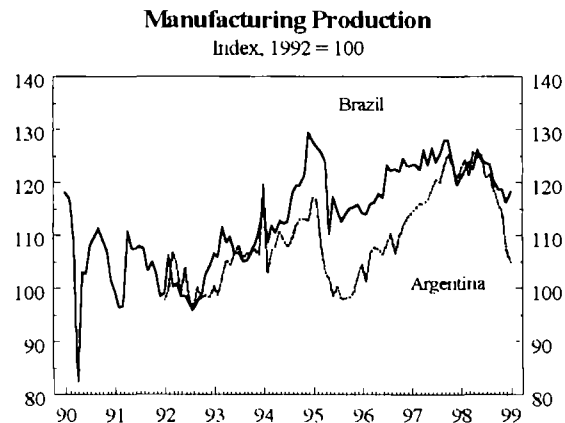
- Canada, Mexico, and the European Union absorbed 56 percent of total U.S. exports of goods in 1998, and they have a strong influence on the rate of growth of our exports. Growth in industrial production in Canada and Mexico slowed in 1998, and dropped at the end of the year in Europe.



- Japan and Korea purchased 10 percent of our exports of goods in 1998. Growth in industrial production in Korea has rebounded to pre-crisis levels, but production remains very sluggish in Japan.

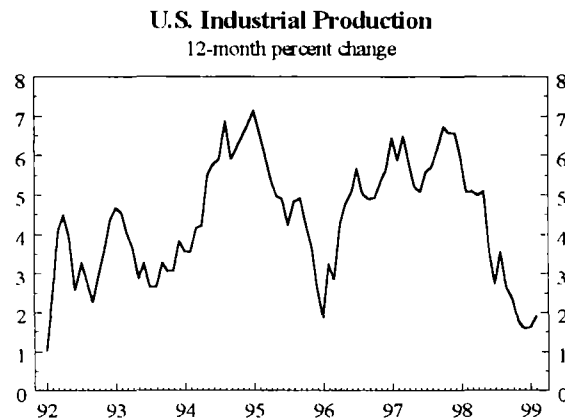


- Exports to Brazil and Argentina accounted for 3 percent of total U.S. exports of goods but a third of goods exports to Central and South America. Industrial production in each country has begun to fall.

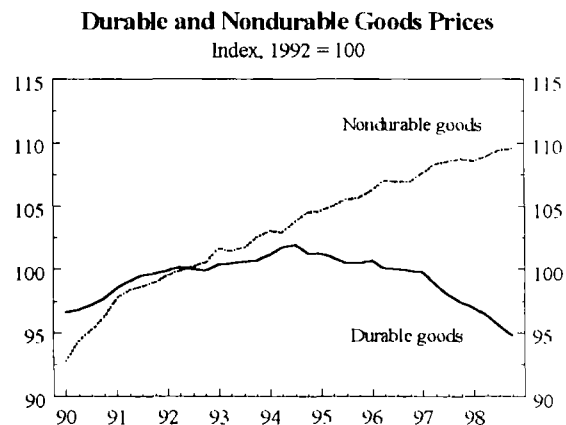
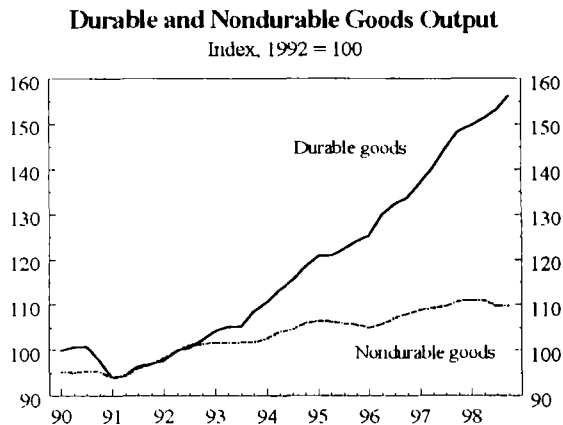


Modest Growth in U.S. Industrial Production

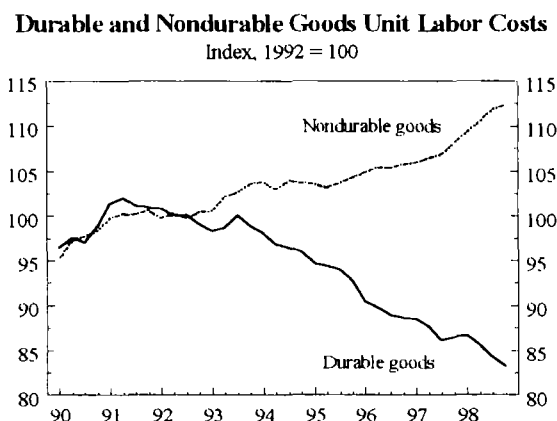
U.S. industrial production increased 0.2 percent in February, continuing its modest growth of about 2 percent at an annual rate. The slow growth apparently reflects the influence of international developments and trade.



- Several industries continued to reflect the effects of import competition. Output of raw steel increased during the last three months, but remained 13.5 percent below its year-ago level. Domestic production of clothing peaked in 1995 and has fallen 13 percent since then. Low oil prices in February drove domestic oil and gas extraction to its lowest level since 1964.
- During this expansion, production of durable goods has grown much more rapidly than output of nondurable goods (7.1 percent at an annual rate since 1991 versus 1.8 percent, see left chart). Manufactured durable goods account for almost half of total industrial production, while nondurable goods account for almost 40 percent.



- The strong demand for durable goods partly reflects the net decline in prices of durable goods (0.7 percent a year since 1991, on average) compared with the rise in prices of nondurable goods (1.5 percent, on average, right chart above).
- The divergence in prices reflects the strong growth in productivity within durable goods industries (almost 6 percent per year since 1991) which has contributed to a fall in labor costs per unit of output (2.7 percent on average).



- In contrast, productivity in nondurable goods industries has grown only 2 percent per year since 1991, and unit labor costs have risen 1.6 percent. Nondurable goods industries faced the additional disadvantage that labor compensation per hour rose more rapidly-- 3.8 percent on average since 1991, versus 2.8 percent in durable goods industries.

Little Change in Consumer Prices

In February, the consumer price index rose a small 0.1 percent for the third consecutive month. Prices of items other than food and energy -- a widely-used indicator of the underlying (core) rate of inflation -- edged up only 0.1 percent for the second month.

- In the three months ending in February, inflation has edged down from its average in 1997 and 1998. Energy prices continued their decline through February, though gasoline prices appear to have increased in March.

Consumer Prices			
Percent change, annual rate			
	<u>1997</u>	<u>1998</u>	<u>Last 3 months</u>
All items	1.7	1.6	1.2
Energy	-3.4	-8.8	-5.1
Food	1.6	2.3	2.7
All items less food and energy	2.2	2.4	1.8
Commodities	0.4	1.3	0.8
Services	3.0	2.9	2.1

- Prices of items other than food and energy, the core prices, have risen less rapidly this year. Inflation in services prices has dropped to the remarkably low level of only 2.1 percent at an annual rate.

FORTHCOMING DATA

(Wed.) March 24 -- Durable Goods Shipments and Orders (February)

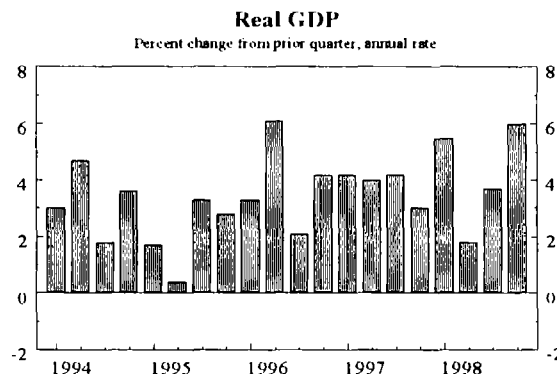
March 31, 1999

BACKGROUND INFORMATION**The Final Estimate of Gross Domestic Product in the Fourth Quarter
Corporate Profits in the Fourth Quarter**

(Released by the Bureau of Economic Analysis at 8:30 a.m.)

The Report

- Real gross domestic product grew at a robust 6.0 -percent annual rate in the fourth quarter, slightly below the 6.1-percent gain reported a month ago. The revisions among components were small and offsetting.
- The fourth-quarter advance, the largest since the second quarter of 1996, included sizable gains in all four major elements of GDP -- consumption, investment, government, and net foreign trade. The last time that all four components contributed positively occurred in the fourth quarter of 1993.



- The price index for gross domestic purchases (everything we buy, including imports) rose a modest 0.9 percent at an annual rate in the fourth quarter, slightly more than reported a month ago.
- Corporate profits from current production declined 0.6 percent in the fourth quarter. The decrease reflected an adjustment of \$13.5 billion for tobacco settlement payments made by the tobacco companies. Excluding this adjustment, profits would have risen 1.0 percent.
- During the four quarters of 1998, domestic corporate profits (excluding the adjustment for the tobacco settlement) rose 1.3 percent, after rising 11.1 percent during 1997. Net profits from abroad rose 5.2 percent during 1998, after declining 13.1 percent in 1997.

The Near-term outlook

- The economy rose 4.3 percent during 1998 (fourth quarter to fourth quarter), the third consecutive year the economy expanded about four percent. Analysts expect a moderation in growth during 1999.

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