107th Congress, 1st Session .....H.Doc. 107-2

Economic Report of the President

Transmitted to the Congress
January 2001

together with
THE ANNUAL REPORT
of the
COUNCIL OF ECONOMIC ADVISERS

UNITED STATES GOVERNMENT PRINTING OFFICE
WASHINGTON : 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: (202) 512-1800 Fax: (202) 512-2250
Mail Stop: SSOP, Washington, DC 20402-0001
ISBN 0-16-050616-6

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

CONTENTS

	Page
ECONOMIC REPORT OF THE PRESIDENT	1
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS*	7
CHAPTER 1. THE MAKING OF THE NEW ECONOMY	19
CHAPTER 2. MACROECONOMIC POLICY AND PERFORMANCE	55
CHAPTER 3. THE CREATION AND DIFFUSION OF THE NEW ECONOMY	95
CHAPTER 4. THE NEW ECONOMY IN A GLOBAL CONTEXT	145
CHAPTER 5. LIVING IN THE NEW ECONOMY	187
CONCLUSION: ACHIEVEMENTS AND CHALLENGES IN THE NEW ECONOMY	245
APPENDIX A. REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE COUNCIL OF ECONOMIC ADVISERS DURING 2000	255
APPENDIX B. STATISTICAL TABLES RELATING TO INCOME, EMPLOYMENT, AND PRODUCTION	269

* *For a detailed table of contents of the Council's Report, see page 11*

ECONOMIC REPORT
OF THE PRESIDENT

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

I am pleased to report that the American economy today is strong. We are enjoying the longest economic expansion ever recorded, with more than 22 million new jobs since 1993, the lowest unemployment rate in 30 years, the lowest female unemployment rate in 40 years, the lowest Hispanic and African-American unemployment rates ever recorded, and the highest home ownership rate on record.

This economic expansion has been not only unusually long, but also broad and deep. For the first time in decades, wages are rising at all income levels. We have the lowest child poverty in 20 years and the lowest poverty rate for single mothers ever recorded. Since 1993 the median family income has gone up more than $6,000, and for African-American families it has risen even more. The number of families who own stock has grown by 40 percent.

Our current economic strength is the result not of chance, but of a choice the American people made 8 years ago. At that time, 10 million of our fellow citizens were out of work. Interest rates were high. The Federal budget deficit was $290 billion and rising. And the Federal debt had quadrupled in the previous 12 years, imposing a crushing burden on our economy and on our children.

The American people chose to change direction, and empowered by that choice, Vice President Gore and I put in place a new economic strategy: fiscal discipline, greater investment in our people, and expanded trade. The result of that three-part strategy has been 8 years of prosperity and progress. Continuing with this proven strategy is the best way to keep that prosperity and progress going.

The Administration's Economic Agenda

Our strategy has been based, first and foremost, on a commitment to fiscal discipline. By first cutting and then eliminating the deficit, we have helped to create a virtuous cycle of lower interest rates, greater investment, more jobs, higher productivity, and higher wages. In the process we have gone from the largest deficits in history to the largest surpluses in history. We have extended the life of the Medicare trust fund to 2025—when I was elected President, it was scheduled to go bankrupt in 1999. And we have paid off $362.5 billion in debt.

Second, our strategy has focused on investing more in education, health care, and science and technology, to strengthen our people's capacity to make the most of the new opportunities of the 21st century. We have doubled funding for Head Start, provided after-school opportunities and mentoring to more than a million young people, and begun putting 100,000 new, well-trained teachers in the early grades to lower class size. These investments, combined with an insistence on high standards for all students and accountability for results, have helped improve student achievement nationwide: reading, math, and SAT scores are all up. And with the largest expansion of college aid since the G.I. Bill, more students than ever are going on to college.

We have also invested in our people through targeted tax relief, to help Americans meet the challenges of work and child rearing. Last year alone, our HOPE Scholarship and Lifetime Learning tax credits helped 10 million families pay for college. Our expansion of the Earned Income Tax Credit will help 15 million families work their way toward the middle class. And 25 million families will get a $500 child tax credit. The typical American family today is paying a lower share of its income in Federal income taxes than at any time during the past 35 years.

Since 1993 we have increased funding for long-term research and development—investments that lead to more economic growth, more high-wage jobs, more cures for diseases, and a cleaner environment. Funding for the National Institutes of Health, for instance, has nearly doubled over the past 7 years.

Meanwhile we have continued to make important investments in our Nation's communities. Our Empowerment Zone tax credits are bringing new business and new jobs to our hardest pressed communities, from the inner cities to Appalachia to the Mississippi Delta to Native American communities. With the help of 100,000 more community police officers funded for our streets, and commonsense measures such as the Brady law and the assault weapons ban that keep guns out of the wrong hands, crime has fallen to a 26-year low. Under the State Children's Health Insurance Program, 2 million previously uninsured children now have health coverage.

Third, our economic strategy has focused on opening markets around the world. Today, with more than 300 new trade agreements in place, including the North American Free Trade Agreement and the Uruguay Round agreements, American workers and firms are competing in more markets than ever before, and our economy is stronger for it.

Continuing Our Economic Strategy

Last year we took important new actions to secure our economic future, guided by the same three-part strategy. We normalized trade with China, a move that will open China's markets to American products from wheat to cars to consulting services. It will also ensure that American companies will be better able to sell goods in China without having to move factories or investments there. Congress also passed, and I signed, a 2001 budget that maintains our commitment to fiscal discipline. Under this new budget we will continue to pay down the debt. If we stay on this path, we can make America debt-free by 2012 for the first time since Andrew Jackson was President in 1835, thereby keeping interest rates low and prosperity going strong.

The 2001 budget also continues our strategy of investing in our people. It includes the largest-ever increase in funding for the National Science Foundation and major increases in funding for education. A new, $1.2 billion investment will help thousands of school districts make emergency repairs and renovations to our children's classrooms. We have increased by 25 percent the funding dedicated to our goal of hiring 100,000 new, highly qualified teachers, to reduce class size. We have nearly doubled funding for after-school programs to help more than 1.3 million students, while increasing support for teacher training and for turning around failing schools. And to open the doors of college even wider, we have increased the maximum Pell grant to an all-time high of $3,750—up nearly $1,500 since 1993.

The new budget also includes our historic New Markets and Renewal Communities Initiative, the most significant effort ever to help hard-pressed communities lift themselves up through entrepreneurship and access to new capital. With our New Markets tax credit, 40 Empowerment Zones, and 40 renewal communities, this initiative will spur billions in private investment in communities that have not yet shared in our great economic revival.

This is a unique moment in U.S. history, a time of unrivaled prosperity and progress, with few internal crises or external threats. We have the responsibility to use our good fortune wisely. If we maintain our current economic strategy, we can sustain our prosperity, expand the circle of opportunity, meet the long-term challenges of this new century, and provide our children the chance to live their dreams.

William J. Clinton

THE WHITE HOUSE
JANUARY 2001

THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

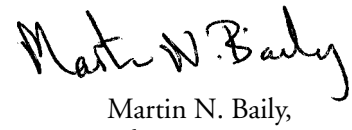
LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., December 29, 2000.

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2001 Annual Report in accordance with the provisions of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,



Martin N. Baily,
Chairman

Robert Z. Lawrence,
Member

Kathryn L. Shaw,
Member