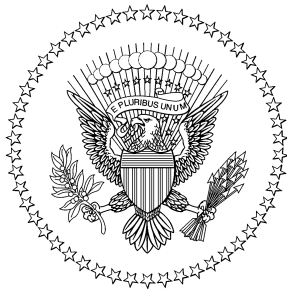
Economic Report of the President



Transmitted to the Congress
February 2000

together with

THE ANNUAL REPORT

of the

COUNCIL OF ECONOMIC ADVISERS

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ECONOMIC REPORT
OF THE PRESIDENT

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

Today, the American economy is stronger than ever. We are on the brink of marking the longest economic expansion in our Nation's history. More than 20 million new jobs have been created since Vice President Gore and I took office in January 1993. We now have the lowest unemployment rate in 30 years—even as core inflation has reached its lowest level since 1965.

This expansion has been both deep and broad, reaching Americans of all races, ethnicities, and income levels. African American unemployment and poverty are at their lowest levels on record. Hispanic unemployment is likewise the lowest on record, and poverty among Hispanics is at its lowest level since 1979. A long-running trend of rising income inequality has been halted in the last 7 years. From 1993 to 1998, families at the bottom of the income distribution have enjoyed the same strong income growth as workers at the top.

In 1999 we had the largest dollar surplus in the Federal budget on record and the largest in proportion to our economy since 1951. We are on course to achieve more budget surpluses for many years to come. We have used this unique opportunity to make the right choices for the future: over the past 2 years, America has paid down $140 billion in debt held by the public. With my plan to continue to pay down the debt, we are now on track to eliminate the Nation's publicly held debt by 2013. Our fiscal discipline has paid off in lower interest rates, higher private investment, and stronger productivity growth.

These economic successes have not been achieved by accident. They rest on the three pillars of the economic strategy that the Vice President and I laid out when we took office: fiscal discipline to help reduce interest rates and spur business investment; investing in education, health care, and science and technology to meet the challenges of the 21st century; and opening foreign markets so that American workers have a fair chance to compete abroad. As a result, the American economy is not only strong today; it is well positioned to continue to expand and to widen the circle of opportunity for more Americans.

The Administration's Economic Strategy

Our economic strategy was based on a commitment, first, to fiscal discipline. When the Vice President and I took office, the U.S. Government had

a budget deficit of $290 billion. Today we have a surplus of $124 billion. This fiscal discipline has helped us launch a virtuous circle of strong investment, increasing productivity, low inflation, and low unemployment.

Second, we have remained true to our commitment to invest in our people. Because success in the global economy depends more than ever on highly skilled workers, we have taken concerted steps to make sure all Americans have the education, skills, and opportunities they need to succeed. That is why, even as we maintained fiscal responsibility, we expanded our investments in education, technology, and training. We have opened the doors of college to all Americans, with tax credits, more affordable student loans, education IRAs, and the HOPE Scholarship tax credits. So that working families will have the means to support themselves, we have increased the minimum wage, expanded the Earned Income Tax Credit (EITC), provided access to health insurance for people with disabilities, and invested in making health insurance coverage available to millions of children.

Third, we have continued to pursue a policy of opening markets. We have achieved historic trade pacts such as the North American Free Trade Agreement and the Uruguay Round agreements, which led to the creation of the World Trade Organization. Negotiations in the wake of the Uruguay Round have yielded market access commitments covering information technology, basic telecommunications, and financial services. We have engaged in bilateral initiatives with Japan and in regional initiatives in Europe, Africa, Asia, the Western Hemisphere, and the Middle East. We have also actively protected our rights under existing trade agreements through the World Trade Organization and helped maintain the Internet as a tax-free zone.

Meeting the Challenges of the Future

Despite the economy's extraordinary performance, we must continue working to meet the challenges of the future. Those challenges include educating our children, improving the health and well-being of all our citizens, providing for our senior citizens, and extending the benefits of the economic expansion to all communities and all parts of this Nation.

We must help our children prepare for life in a global, information-driven economy. Success in this new environment requires that children have a high-quality education. That means safe, modern schools. It means making sure our children have well-trained teachers who demand high standards. It means making sure all schools are equipped with the best new technologies, so that children can harness the tools of the 21st century.

First and foremost, our children cannot continue trying to learn in schools that are so old they are falling apart. One-third of all public schools need extensive repair or replacement. By 2003 we will need an additional 2,400 schools nationwide to accommodate these rising enrollments. That is why, in

my State of the Union address, I proposed $24.8 billion in tax credit bonds over 2 years to modernize up to 6,000 schools, and a $1.3 billion school emergency loan and grant proposal to help renovate schools in high-poverty, high-need school districts.

Second, if our children are to succeed in the new digital economy, they must know how to use the tools of the 21st century. That is why the Vice President and I have fought for initiatives like the E-rate, which is providing $2 billion a year to help schools afford to network their classrooms and connect to the Internet. The E-rate and our other initiatives in education technology have gone a long way toward giving all children access to technology in their schools. But there is still a great "digital divide" when children go home. Children from wealthy families are far more likely to have access to a computer at home than children from poor or minority families. That is why, in my budget, I propose a new Digital Divide initiative that will expand support for community technology centers in low-income communities; a pilot project to expand home access to computers and the Internet for low-income families; and grants and loan guarantees to accelerate the deployment of high-speed networks in underserved rural and urban communities.

Third, we must continue to make college affordable and accessible for all Americans. I have proposed a college opportunity tax cut, which would invest $30 billion over 10 years in helping millions of families who now struggle to afford college for their children. When fully phased in, this initiative would give families the option to claim a tax deduction or a tax credit on up to $10,000 of tuition and fees for any postsecondary education in which their members enroll, whether college, graduate study, or training courses. I have proposed increases in Pell grants, Supplemental Educational Opportunity Grants, and Work Study. I have also proposed creating new College Completion Challenge Grants to encourage students to stay in college.

We have seen dramatic advances in health care over the course of the 20th century, which have led to an increase in life expectancy of almost 30 years. But much remains to be done to ensure that all have and maintain access to quality medical care. That is why my budget expands health care coverage, calls for passing a strong and enforceable Patients' Bill of Rights, strengthens and modernizes Medicare, addresses long-term care, and continues to promote life-saving research.

My budget invests over $110 billion over 10 years to improve the affordability, accessibility, and quality of health insurance. It will provide a new, affordable health insurance option for uninsured parents as well as accelerate enrollment of uninsured children who are eligible for Medicaid and the State Children's Health Insurance Program. The initiative will expand health insurance options for Americans facing unique barriers to coverage. For example, it will allow certain people aged 55-65 to buy into Medicare, and it

will give tax credits to workers who cannot afford the full costs of COBRA coverage after leaving a job. Finally, my initiative will provide funds to strengthen the public hospitals and clinics that provide health care directly to the uninsured. If enacted, this would be the largest investment in health coverage since Medicare was created in 1965, and one of the most significant steps we can take to help working families.

As our Nation ages and we live longer, we face new challenges in Medicare and long-term care. Despite improvements in Medicare in the past 7 years, the program begins this century with the disadvantages of insufficient funding, inadequate benefits, and outdated payment systems. To strengthen and modernize the program, I have proposed a comprehensive reform plan that would make Medicare more competitive and efficient and invest $400 billion over the next 10 years in extending solvency through 2025 and adding a long-overdue, voluntary prescription drug benefit.

The aging of America also underscores the need to build systems to provide long-term care. More than 5 million Americans require long-term care because of significant limitations due to illness or disability. About two-thirds of them are older Americans. That is why I have proposed a $27 billion investment over 10 years in long-term care. Its centerpiece is a $3,000 tax credit to defray the cost of long-term care. In addition, I propose to expand access to home-based care, to establish new support networks for caregivers, and to promote quality private long-term care insurance by offering it to Federal employees at group rates.

We must continue to make this economic expansion reach out to every corner of our country, leaving no town, city, or Native American reservation behind. That is why I am asking the Congress to authorize two additional components of our New Markets agenda. The first is the New Markets Venture Capital Firms program, geared toward helping small and first-time businesses. The second is America's Private Investment Companies, modeled on the Overseas Private Investment Corporation, to help larger businesses expand or relocate to distressed inner-city and rural areas. Overall the New Markets initiative could spur $22 billion of new equity investment in our underserved communities.

I am also proposing a new initiative called First Accounts, to expand access to financial services for low- and moderate-income Americans. We will work with private financial institutions to encourage the creation of low-cost bank accounts for low-income families. We will help bring more automated teller machines to safe places in low-income communities, such as the post office. And we will educate Americans about managing household finances and building assets over time.

To further increase opportunities for working families, I am proposing another expansion of the EITC to provide tax relief for 6.4 million

hard-pressed families—with additional benefits for families with three or more children. We have seen the dramatic effects that our 1993 expansion of the EITC had in reducing poverty and encouraging work: 4.3 million people were directly lifted out of poverty by the EITC in 1998 alone. More single mothers are working than ever before, and the child poverty rate is at its lowest since 1980.

Our initiatives to open overseas markets will continue. We have successfully concluded bilateral negotiations on China's accession to the World Trade Organization and now seek congressional action to provide China with permanent normal trade relations. The United States will also work to give the least developed countries greater access to global markets. We will participate in the scheduled multilateral talks to liberalize trade in services and agriculture and will continue to press our trading partners to launch a new round of negotiations within the World Trade Organization.

We have a historic opportunity to answer the challenges ahead: to increase economic opportunity for all American families; to provide quality, affordable child care, health care, and long-term care; and to give our children the best education in the world. Working together, we can meet these great challenges and make this new millennium one of ever-increasing promise, hope, and opportunity for all Americans.



THE WHITE HOUSE
FEBRUARY 10, 2000

THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

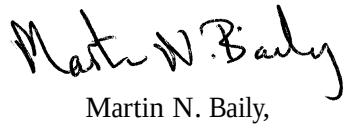
LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., February 10, 2000.

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2000 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-Nominee