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AFL-CIO Miscellaneous

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AFL-CIO MEETING – Friday, December 10, 1999

Room 324 OEOB

Attendance:

Administration

Martin Baily, CEA
Robert Lawrence, CEA
Kathryn Shaw, CEA
Audrey Choi, CEA
Karen Tramontano, WH
Robert Shapiro, Commerce
Jonathan Orszag, Commerce
Andrew Samet, ~~Commerce~~ Labor
Jorge Perez-Lopez, ~~Commerce~~ Labor
Robert Cumby, Treasury
William Samuels, Labor
Harry Holzer, Labor
Edward Montgomery, Labor
Tom Kalil, NEC
Dorothy Robyn, NEC
Michael Daum, NEC

\+ Rick Samans NEC
\+ Ian Bowles CEQ/NSC
X 66530

AFL-CIO

David A. Smith
Thea M. Lee
Thomas I. Palley
Mark Levinson, UNITE
Robert E. Lucore, Teamsters
Steve Beckman, IGC
Cary E. Burnnell, USWA
Owen Herrnstadt, IAM

Alice H. Williams 11/30/99 12:04:02 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: AFL-CIO meeting re-scheduled

The AFL-CIO meeting originally scheduled for Thursday, 11/23/99 at 10:00 a.m. has been re-scheduled for Friday, December 10, 1999 at 3:00 p.m. in Room 324 OEOB.

NOTE: Mary, Please be sure the conference room is reserved for CEA all day. Thank you.

Message Sent To:

Lisa D. Branch/CEA/EOP@EOP
Sandra F. Daigle/CEA/EOP@EOP
Audrey Choi/CEA/EOP@EOP
Francine P. Obermiller/CEA/EOP@EOP
Mary E. Jones/CEA/EOP@EOP

AFL-CIO MEETING
Thursday, September 30, 1999
10:00 a.m. –12:00 N

Attending: Administration

Caroline Atkinson, Treasury
Lael Brainard, NEC
Robert Cumby, Treasury
Harry Grubert, Treasury
Jeri Jensen-Moran, Commerce
Jon Orszag, Commerce
Rick Samans, NEC
William Samuels, Labor
Robert Shapiro, Commerce
Karen Tramontano, WH
David Walters, USTR

CEA: Martin Baily
Robert Lawrence
Audrey Choi

AFL-CIO: Attending:

Ron A. Bloom
United Steelworkers of America (USWA)

Mark Levinson
Union of Needletrades, Industrial and Textile Employees

Owen E. Herrnstadt
International Association of Machinists and Aerospace Workers

Robert Pajkovski
United Food and Commercial Workers International Union

Tom Palley, AFL-CIO

David A. Smith, AFL-CIO

Michael E. Conyngham, International Brotherhood of Teamsters (IBT)

COUNCIL OF ECONOMIC ADVISERS

Date: September 29, 1999

To: Robert Lawrence

From: Yu-Chin Chen, Noah Weisberger and John Williams

Subject: Model Simulations of Budget Scenarios: Preliminary Results

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This memo summarizes some preliminary results from FRB/US model simulations of three budget plans. *The reported outcomes regarding sectoral employment represent the first use of the new sectoral input-output equations and should be viewed as preliminary and subject to revision as we further test and refine this part of the model.* The first two plans maintain a balanced unified budget. In the first, the projected unified surpluses are offset entirely by increases in federal purchases of goods and services; in the second, the unified surpluses are offset by reductions in personal income taxes. The third plan is based on the recently demised Republican proposal to cut taxes by about $800 billion over the next ten years. The baseline for all simulations is the Mid-Session Review Administration projection excluding changes to Medicare, Social Security, and Universal Savings Accounts.

The current projection is for the unified surplus to rise from about 1-1/2 percent of GDP in FY2000 to about 3-1/2 percent of GDP in 2009. A reduction of these surpluses, either through increases in outlays or reductions in receipts, drives up aggregate spending, real interest rates and the exchange value of the dollar. Interest-sensitive sectors--durables manufacturing and construction--are particularly hard hit by rising interest rates. Such effects are greatest in the case of an increase in spending on goods and services and are smallest in the case of income tax cuts (especially those benefiting the wealthy).

Simulations

For the first two simulations, we assume that the unified surpluses over the next ten years are eliminated, either through increases in expenditures or tax cuts. Table 1 summarizes the results from these simulations. Monetary policy is assumed to follow the Taylor rule and thereby to keep output near potential and inflation near its target. The top part of the table shows the outcomes for key macroeconomic variables.

Table 1
FRB/US Model Simulation of a Balanced Unified Budget
(percent deviation from baseline unless otherwise noted)

	More Spending		Tax Cuts	
	2004	**2009**	**2004**	**2009**
Macroeconomic Effects				
Unemployment Rate*	-0.4	-0.2	-0.3	-0.2
Inflation Rate*	0.1	0.1	0.0	0.0
Real 10-Year Treasury Yield*	0.8	1.3	0.5	0.9
Real Federal Funds Rate*	1.2	1.5	0.8	1.1
Real Exchange Rate	1.3	3.0	0.7	1.7
Real GDP	0.4	-0.7	0.7	0.2
Potential GDP	-0.4	-1.0	-0.1	-0.3
Durable Goods Purchases	-4.7	-5.8	-0.9	-2.2
Housing Expenditures	-8.9	-9.6	1.1	-0.9
Net Exports (percent of GDP)*	-0.1	-0.4	-0.1	-0.3
Federal Debt (percent of GDP)*	8.0	20.0	8.1	19.1
Sectoral Employment (thousands)				
Manufacturing: Durable Goods	-470	-930	-40	-380
Manufacturing: Nondurable Goods	50	150	70	190
Construction	-130	-130	110	200
Other	540	920	-140	-10

* Percentage point deviation from baseline

Both plans increase aggregate spending, causing real GDP growth to exceed its trend for a time and the unemployment rate to fall. The increase in resource utilization, coupled with a small rise in the inflation rate, causes the Fed to raise the funds rate. The resulting rise in bond rates and the exchange value of the dollar eventually will bring aggregate demand in line with aggregate supply (outside the ten-year window portrayed in the table). As seen in the table, the rise in interest rates is much larger for the scenario where the surpluses are spent on purchases of goods and services. High interest rates lower potential GDP through their effect on the stock of business capital and the stock of housing, where the latter shows up in GDP as a determinant of imputed services from owner-occupied housing. In the case of the "spending" scenario, the negative effect on the housing stock is noticeably larger because the cost-of-capital effect is not offset by increased after-tax income, as in the case of the "tax cut" scenario.

Table 2 summarizes the results of a $800 billion tax cut. This experiment is similar to the tax cut scenario presented in Table 1; the timing of the tax cuts is somewhat more delayed than in the previous experiment and the magnitude is much smaller.

Table 2
FRB/US Model Simulation of a $800 Billion Tax Cut
(percent deviation from baseline unless otherwise noted)

	Tax Cuts	
	2004	**2009**
Macroeconomic Effects		
Unemployment Rate*	-0.1	-0.1
Inflation Rate*	0.0	0.0
Real 10-Year Treasury Yield*	0.1	0.3
Real Federal Funds Rate*	0.2	0.4
Real GDP	0.2	0.2
Potential GDP	-0.0	-0.1
Durable Goods Purchases	-0.2	-0.8
Housing Expenditures	0.4	-0.3
Net Exports (percent of GDP)*	-0.0	-0.1
Federal Debt (percent of GDP)*	1.8	6.3
Sectoral Employment (thousands)		
Manufacturing: Durable Goods	-40	-100
Manufacturing: Nondurable Goods	10	70
Construction	30	80
Other	0	-50

* Percentage point deviation from baseline