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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

THE CHAIRMAN

January 12, 2000

MEMORANDUM FOR GENE SPERLING

FROM:

MARTIN N. BAILY *MNB*
ROBERT Z. LAWRENCE *RZ*

SUBJECT:

Meetings between Administration and Union Economists

This memorandum provides a report to the National Economic Council from the meetings held at CEA, starting in July 1999, with economists and policy analysts from the AFL-CIO. Labor, Commerce, USTR, and Treasury also participated in the meetings. The initial meetings were devoted to sharing our understanding of the state of the manufacturing sector and its importance to the economy. We then explored a number of policy options to strengthen the sector. We recommend that the NEC refer these issues to the manufacturing task force and the appropriate agencies for their consideration.

We were able to reach agreement on several issues about the manufacturing sector. Most significantly, we agreed that to understand manufacturing employment it is necessary to distinguish between long run trends, which are heavily driven by factors such as productivity growth and demand patterns, and the more recent negative impact of the Asian crisis and slower economic growth abroad, which has contributed to recent job loss. We could all agree, therefore, that since 1998 trade has had a negative impact on employment, but that over long time periods other factors are also important in explaining the declining share of employment in manufacturing.

We also shared views on why manufacturing is important to the economy: its role as a source of high-wage jobs for blue-collar workers, the spillovers generated from manufacturing R&D and the important role for manufacturing in productivity growth and international competition.

In the second set of meetings we turned to discussions of policies to aid the manufacturing sector. In particular, the union economists identified seven policy issues that were of the highest priority to them.

Safeguards. Union economists have expressed concern about the ability of industries to obtain swift and certain relief under Section 201 of the Trade Act. Specific concerns relate to:

- (1) Problems in defining the scope of an industry;
- (2) The organizational and expense problems faced by industries with large numbers of small firms in bringing a case;
- (3) The standard of causation required – the US standard is tougher than that actually required by WTO rules;
- (4) The need to demonstrate a plan for adjustment relief in cases where industries may have already experienced considerable adjustment;
- (5) The fact that the special surge mechanism under NAFTA only permits the restoration of tariffs to previous levels rather than to a level required to stem the injury cause by NAFTA imports.

Offsets. Of particular concern to aerospace workers is the use of agreements to localize component production to boost sales. The first problem relates to gathering information. In particular, sales are often lost by second and third tier suppliers that are hard to track. The second problem is what can be done about the practice. Bilateral (an agreement with the EU) and multilateral approaches (the possibility of dealing with offsets as a trade-related investment measure in the WTO or an agreement at the OECD) were advocated. We are, of course in the process of launching a joint Commerce-Labor Commission on the International Competitiveness of the US Aerospace Industry with the mandate to examine offsets. In addition, Senator Feingold is also launching a Commission specifically to examine offsets.

Tax treatment of multinational enterprises. The tax system contains several measures, which are said to bias US firms to invest abroad. In particular, the unions would like to see the foreign tax credit repealed and replaced by a deduction. In the absence of this radical measure they advocate the following alternatives:

- (1) Repeal of foreign tax deferral.
-- Currently, firms pay foreign taxes only when dividends are remitted. This represents a preference over domestic profits, which are paid upon accrual.
- (2) Restrict the use of foreign tax credit baskets--eliminate the practice of offsetting taxes paid in low tax countries with taxes paid in high tax countries.
- (3) Set a maximum rate for the foreign tax credit at the US rate of 35 percent.
- (4) Replace the system of arms-length transfer pricing with the allocation of profits on the basis of sales.
- (5) Ensure international consistency of the reporting status of branches and affiliates.
- (6) Address (and limit) state level tax competition.
- (7) Establish a commission of inquiry to look at the tax system and tax treaties.

Training. In their presentation, the union analysts voiced concern about the inadequate commitment of resources to training, They were critical of moves to devolve authority for training to the states and to privatize the oversight of training programs. They felt that the current WARN system (which provides notice of mass layoffs) was weak and that the notice period should be extended to at least 90 days. They expressed concerns about assessment and counseling offered by the Employment service, calling for counseling with a permanent case

manager and peer support. They decried the use of for-profit institutions as counselors, called for better labor market information for workers and advocated child care, transportation and relocation assistance. They emphasized the need for funding for BLS programs to ensure the continued collection of statistics on mass layoffs and dislocated workers. They proposed performance standards and improved accountability for firms providing subsidized on-the-job training. They support union and worker involvement in the design and evaluation of training programs. They called for short-term public service jobs. They advocated consideration of an expansion of unemployment benefits to provide income support (rather than simply vouchers) for workers who are seeking training.

Finance. Concern was expressed about the ability of the manufacturing sector to raise capital, with particular problems facing small and medium sized firms. Noting that price earnings ratios are far lower for manufacturing firms than for the market as a whole, they argue that the cost of capital facing these firms is therefore higher—there is an anti-manufacturing bias in the capital markets. It was proposed that the Federal Government should undertake a study of the issue of capital access for manufacturing companies.

Enforcement of Trade Agreements. The concerns here fell into two categories. The first was a general concern that some foreign governments effectively nullify trade agreements. In particular, agreements with Japan were said to be too vague. It was argued that quantitative standards (e.g. specific market shares) need to be agreed upon. The second concern was about labor standards provisions. One idea is to sign trade agreements obligating countries to enforce their own labor standards in addition to core labor standards. A variety of other suggestions for changes in legislation are included in the position paper that accompanied the presentation.

The Impact of Environmental Provisions on Competitiveness. Concerns about the impact of environmental regulations on investment and international competition – i.e. the need for a level playing field were expressed. It was argued that while meeting environmental standards is not very costly on average, it can be very costly in some industries, such as the steel industry. The unions argued that a more level playing field would be achieved through the use of a system of countervailing duties to offset differentials in costs of complying with pollution regulations.

The opportunity to discuss these policy proposals was very helpful to the CEA and other agency participants and gave us a clearer picture of the positions of the union policy analysts and the reasons behind their positions. Clearly, many industries in the manufacturing sector are under duress. We urge you to review the ideas developed in the meetings and we would be happy to discuss them with you in greater detail.

cc: The Honorable John Podesta
Counselor Karen Tramontano
The Honorable Lawrence Summers
The Honorable William Daly
The Honorable Alexis Herman
The Honorable Charlene Barshefsky



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

TRANSMISSION COVER SHEET

DATE: 6/8/99

TO: AQUOREY CHOIR

FAX NO. 395-6958

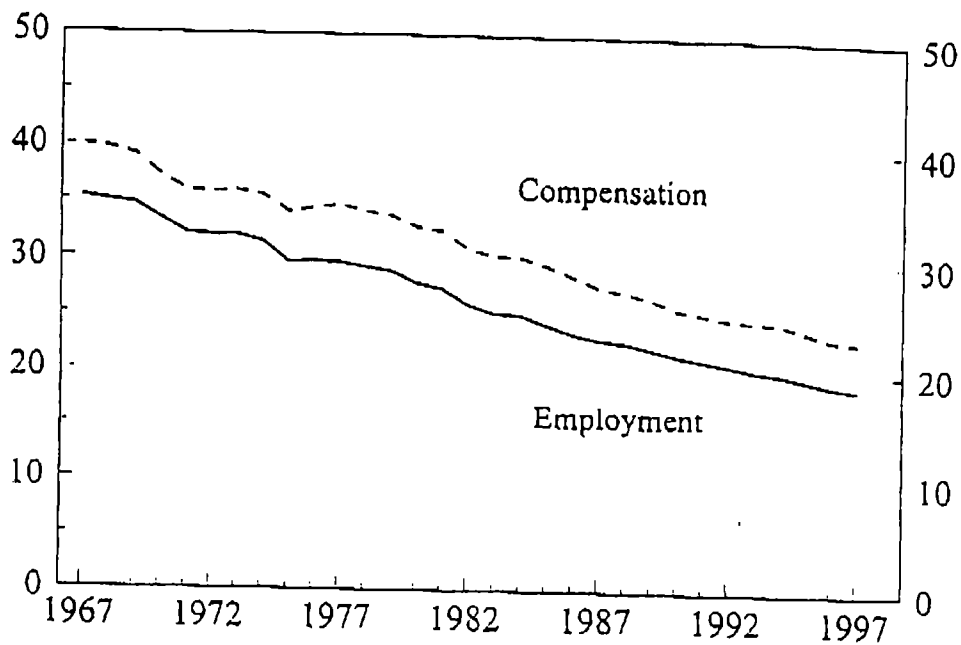
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WASHINGTON, D.C. 20230
TELEPHONE NO. (202) 482-3727
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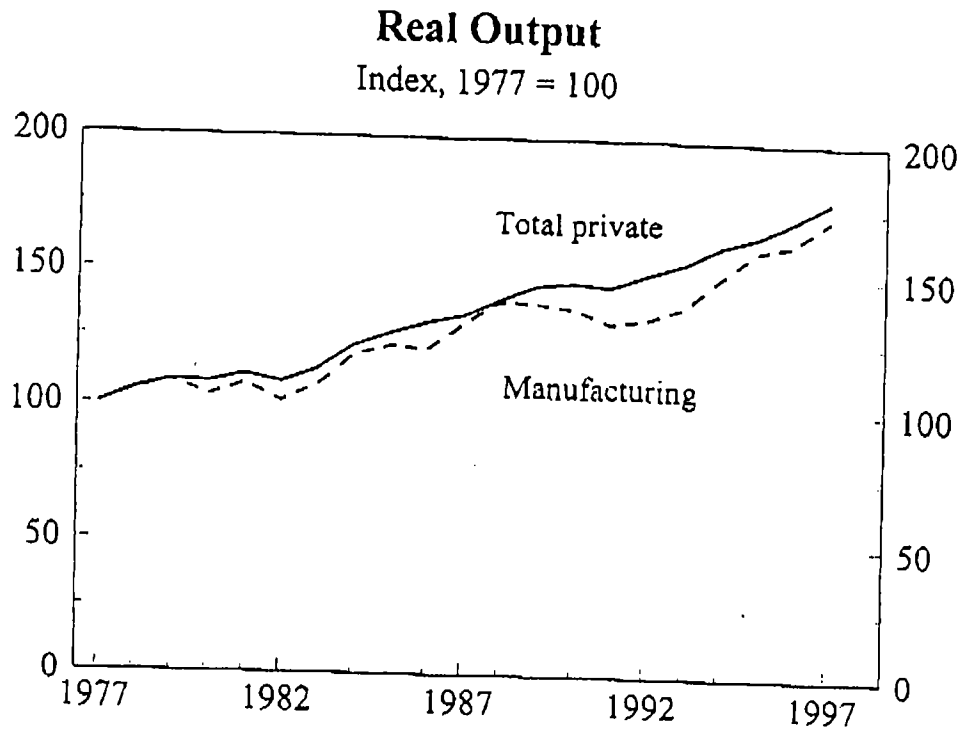
RE/COMMENTS:



Manufacturing Share of Private Employment and Compensation Percent

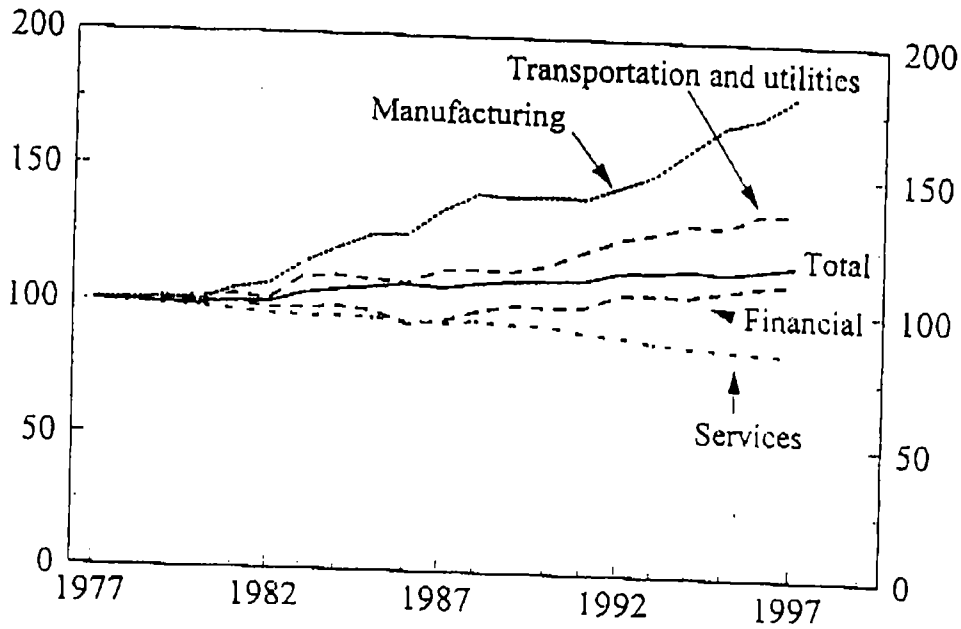


The manufacturing share of employment fell from 35.3 percent in 1967 to 18.7 percent in 1997. Compensation share is higher because of generally better pay in the manufacturing sector.



Real output in manufacturing is growing about as fast as overall national output.

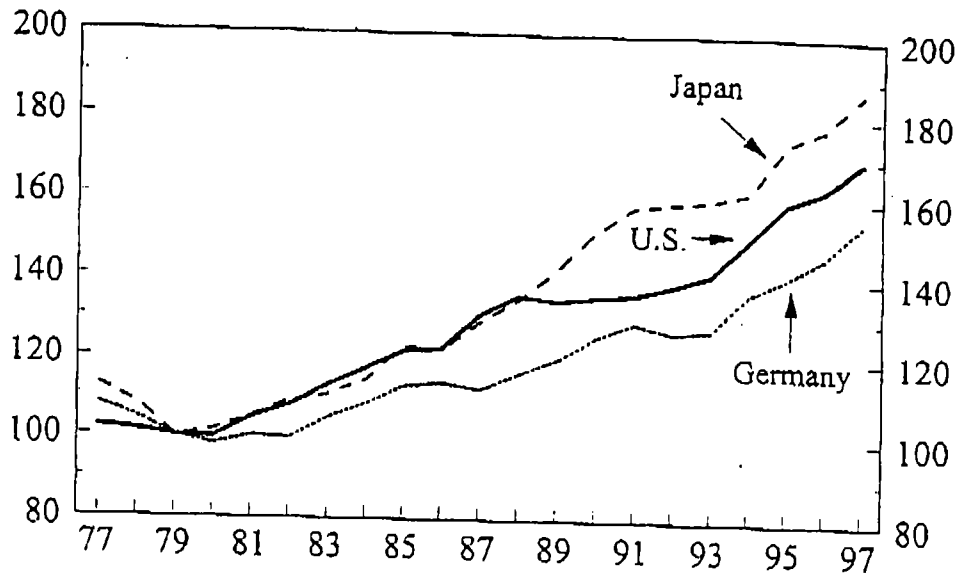
Productivity in Private Industry Index, 1977 = 100



Productivity is growing much faster in manufacturing- 80 percent from 1977 to 1999 versus an average of 18 percent for all industries.

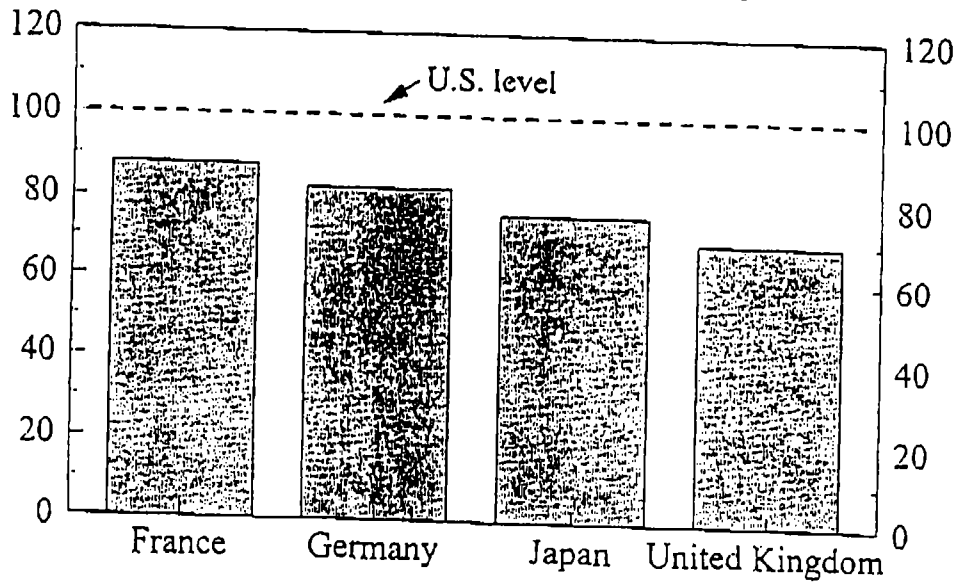
Growth in Manufacturing Productivity

International Comparisons
Index 1979 = 100



During the last two decades, manufacturing productivity has grown 3.0 percent at an annual rate, somewhat less than Japan's increase (3.5 percent), but more rapidly than Germany's growth (2.4 percent).

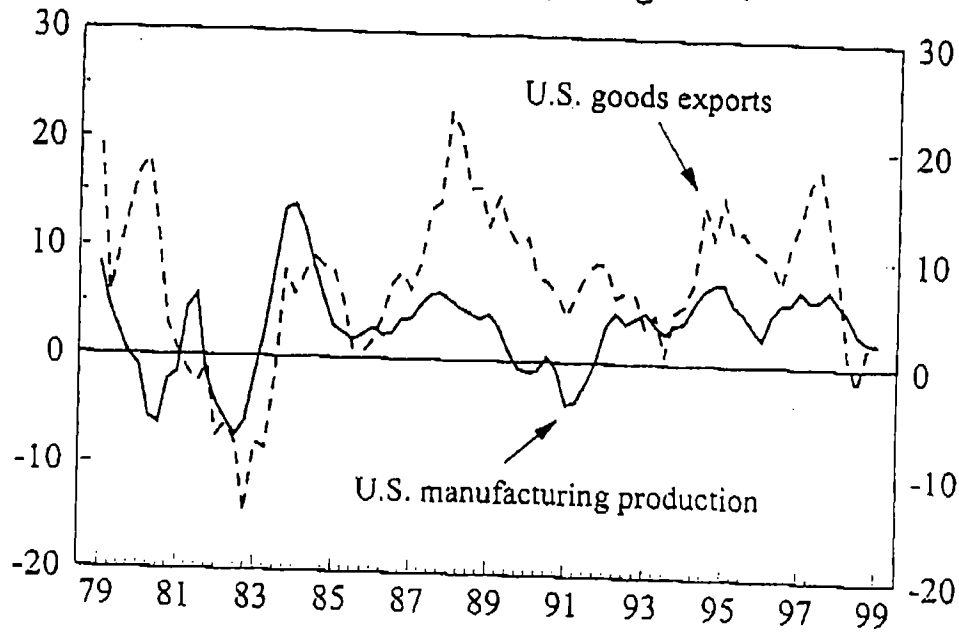
Manufacturing Productivity Levels International Comparisons 1993 levels as a percent of U.S. level



The level of manufacturing productivity (output per worker) in the U.S. is higher than the productivity levels in other major industrial countries.

U.S. Exports and U.S. Manufacturing Production

Percent change from year-ago level

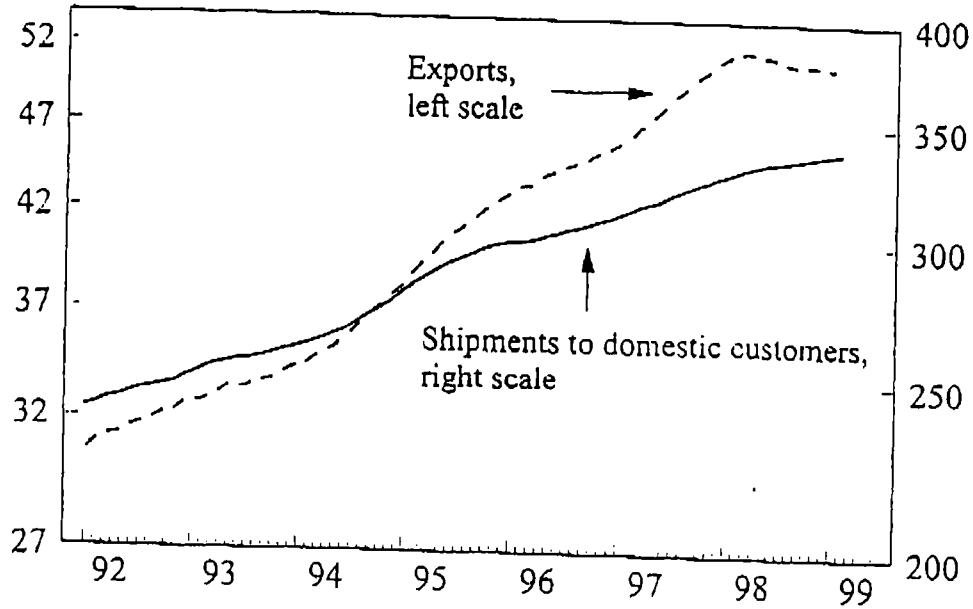


The rise and fall of growth in U.S. manufacturing is often closely associated with growth in U.S. exports.

	Share of 1998 Exports	Growth in 1997	12-mo. growth to Growth avg of Nov, Dec, in 1998 and Jan 99	
Total manufacturing	100	12.1	-0.2	-1.6
Primary metals	4	6.7	-3.5	-13.0
Iron and steel	1	16.4	-3.8	-18.7
Food products	4	6.4	-4.2	-12.0
Industrial machinery	20	14.1	-6.0	-10.1
Chemicals	11	11.5	-1.9	-4.2
Instruments	6	13.2	1.2	-3.9
Electrical machinery	17	12.4	-1.8	1.3
Transportation equipment	20	16.2	11.0	13.1
Aircraft	10	25.6	28.4	35.2

On an annual basis, the strongest export growth last year came in aircraft, while the largest declines occurred in primary metals, food products, and industrial machinery.

Shipments of Manufactured goods Billion\$, 12-month moving average



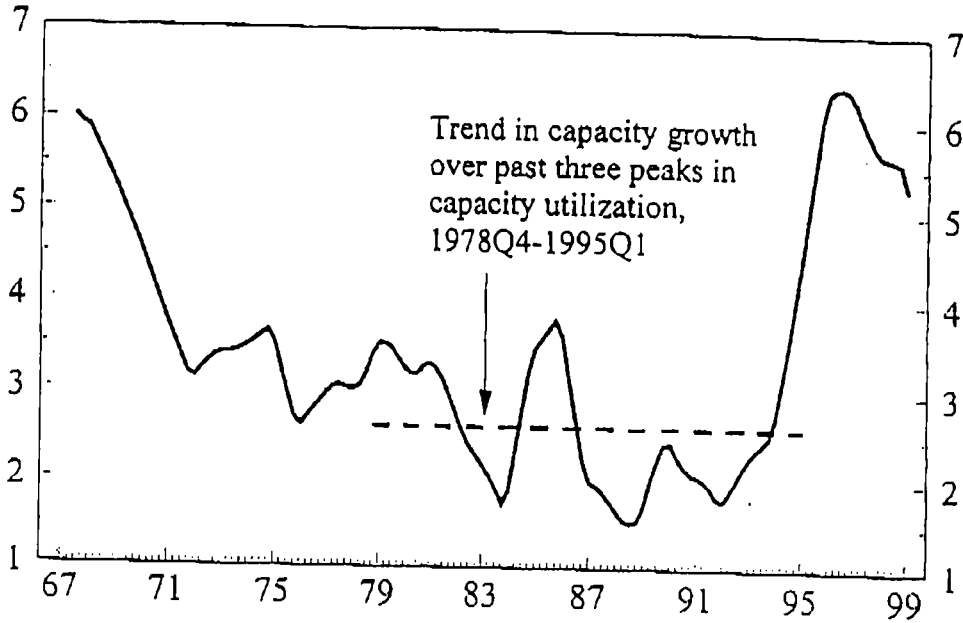
Domestic sales have continued to grow steadily even as exports have declined since late 1997.

Industrial Production			
Percent change from prior quarter at an annual rate			
	1997*	1998*	1999**
Industrial production	6.6	1.9	0.9
Utilities	1.9	-0.9	-2.7
Mining: oil and gas extraction	1.8	-8.1	-17.8
Manufacturing	7.3	2.5	1.6
Lumber	3.1	4.2	7.5
Industries substantially involved in trade			
Iron and steel	5.0	-11.8	9.8
Apparel	-2.0	-6.1	-7.3
Chemicals	3.1	-2.2	1.3
Aircraft and other transp.	13.4	6.4	-12.1
Instruments	3.6	1.9	6.0
Industrial machinery	13.4	12.8	5.9
Electrical machinery & electronics	24.2	11.2	13.5

* Fourth quarter to fourth quarter
** Fourth quarter 1998 to February 1999

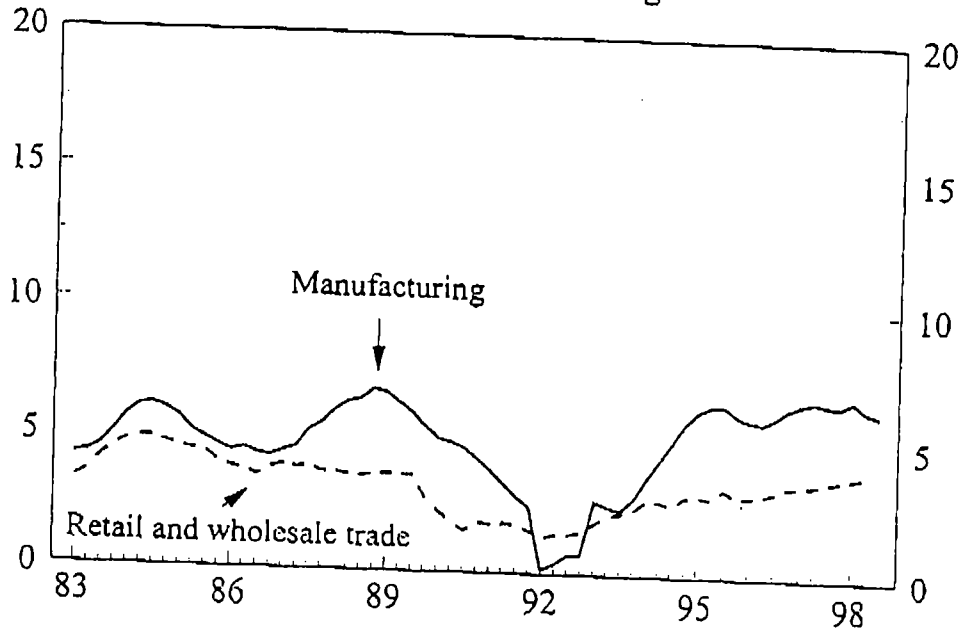
Despite weakness in exports, production of industrial machinery grew in 1998.

Growth in Manufacturing Capacity 4-quarter percent change



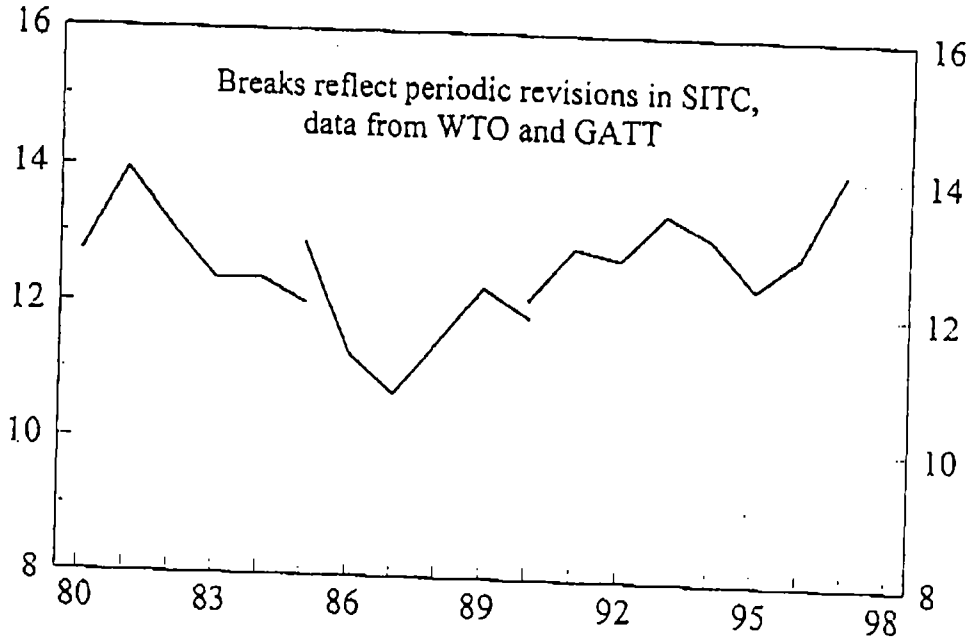
The manufacturing sector has expanded its capacity at very high rates over the last several years.

Rate of Return to Assets After Taxes Percent, 4-quarter average



The profitability of manufacturing is volatile, but averages better than the retail and wholesale trade sectors.

U.S. Share of World Exports of Manufactured Goods Percent



Since a decline in the early 80's, the U.S. share of world exports has recovered.

American Federation of Labor and Congress of Industrial Organizations



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August 5, 1999

Dear Friend,

Please find enclosed the biannual listing of recent Economic Policy and Technical Working Papers prepared by the AFL-CIO's Public Policy Department. The listing also details Policy Handbooks that the department has recently produced.

If you would like to receive copies of any of these papers or handbooks please contact the Public Policy Department.

In Solidarity

Thomas I. Palley
Assistant Director of Public Policy

TP:lr
Enclosure

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AFL-CIO, PUBLIC POLICY DEPARTMENT
List of Economic Policy Papers, Technical Working Papers
and Policy Handbooks

Economic Policy Papers

Date	Number	Author(s)	Title
1999	E036	Palley, Thomas I.	The Economic Case for International Labor Standards: Theory and Some Evidence
	E035	Palley, Thomas I.	Manufacturing Matters: The Impact on Productivity Growth, Wages and Income Distribution
	E034	Jorgensen, Helene	Odd Jobs: Does Nonstandard Work Increase Flexibility in Hours?
	E033	Palley, Thomas I.	Increasing Growth in the Global Economy
	E032	Palley, Thomas I.	End of the Expansion: Soft Landing, Hard Landing, or Even Crash?
	E031	Palley, Thomas I.	Accounting for Income Inequality in the U.S.: The Role of Unions, the Minimum Wage, Unemployment, Family Structure, and International Trade
	E030	Jorgensen, Helene	When Good Jobs Go Bad: Young Adults and Temporary Work in the New Economy
	E029	Friedman, Sheldon	The Future of Social Security
	E028	Palley, Thomas I.	Slow Growth and Unequal Incomes
	E027	Palley, Thomas I.	Toward a New International Economic Order: Goodbye Washington Consensus, Hello Main Street Alternative
	E026	Palley, Thomas I.	Lessons From Brazil: Existing Global Economic Arrangements and IMF Policy Don't Add Up
	E025	Palley, Thomas I.	The Economic Case for International Labor Standards <i>(Revised as E036)</i>
	E024	Palley, Thomas I.	The Economics of Globalization: Problems and Policy Responses
1998	E023	Palley, Thomas I.	Why a Global Currency Union with Fixed Exchange Rates Won't Work
	E022	Palley, Thomas I.	Life Expectancy and Social Security: Why Longevity Indexing the Social Security Payroll Tax Makes Good Economic Sense
	E021	Adams Roy Friedman, Sheldon	Human Rights in Employment
	E020	Palley, Thomas I.	The Myth of Labor Market Flexibility and the Costs of Bad Macroeconomic Policy: U.S. and European Unemployment Explained

	E019	Palley, Thomas I.	The New Economy: Where's the Beef and What Next?
	E018	Palley, Thomas I.	International Finance and Global Deflation: There is an Alternative
	E017	Palley, Thomas I.	International Finance and the Problem of Capital Account Governance: A Blue Print for Reform
	E016	Parente, Frank	Jobs in the New Millennium: A look at the DOL's Occupational Projections to the Year 2006
	E015	Palley, Thomas I.	The Economics of Social Security: An Old Keynesian Perspective
	E014	Friedman, Sheldon McDonald-Pines, J.	Continuing the Search for a "New Covenant" for America's Dislocated Workers
	E013	Friedman, Sheldon	Taxing Our Patience: Why Workers Pay More and the Rich Pay Less
	E012	Palley, Thomas I.	Building Prosperity from the Bottom Up: the New Economics of the Minimum Wage
	E011	Friedman, Sheldon Weller, Christian	One More Time: Labor Market Flexibility, Aggregate Demand and Comparative Employment Growth in the U.S. and Europe
	E010	Palley, Thomas I.	The Structural Unemployment Trap: How the NAIRU Can Mislead Policymakers
	E009	Palley, Thomas I.	Challenging Open Markets: The 'Third Way' Involves Making Markets Work For All
1997	E008	Palley, Thomas I.	Decoding the Secrets of the Temple: The Federal Reserve, the Natural Rate, and Backdoor Incomes Policy
	E007	Baldwin, Marc	Welfare and Jobs: Rebuilding the Labor Market from Bottom Down
	E006	Palley, Thomas I.	Zero is not the Optimal Rate of Inflation
	E005	Palley, Thomas I.	Still Only Half Full: Policies for Prosperity in a Leaky World
	E004	Friedman, Sheldon Schlesinger, Tom	Fed Follies: Why Alan Greenspan Won't Let American Workers Get a Raise
	E003	Palley, Thomas I.	The Sorry Politics of the Balanced Budget
	E002	Palley, Thomas I.	How to Rewrite Economic History: The Boskin Commission's Attack on the Consumer Price Index is Weak on the Merits and Scary as Policy
	E001	Baugh, Robert Friedman, Sheldon Hilton, Margaret	We'll Take the High Road: Unions and Economic Development

Technical Working Papers

Date	Number	Author(s)	Title
1999	T022	Palley, Thomas I.	Open Economy Macroeconomics with Foreign Currency Denominated Debt
	T021	Palley, Thomas I.	General Disequilibrium Analysis with Inside Debt
	T020	Palley, Thomas I.	Conflict, Distribution and Finance in Alternative Macroeconomic Traditions
	T019	Palley, Thomas I.	The Stock Market and Investment: Another look at the Micro-foundations of q Theory
1998	T018	Palley, Thomas I.	Unemployment in the U.S.: New Estimates of the Structural and Cyclical components
	T017	Palley, Thomas I.	Macroeconomics with Conflict and Income Distribution
	T016	Palley, Thomas I.	The U.S. Inflation Process: Does Nominal Wage Inflation Cause Price Inflation, Vice-versa, or Neither?
	T015	Palley, Thomas I.	Speculation and Tobin Taxes: Why Sand in the Wheels Can Increase Economic Efficiency
	T014	Palley, Thomas I.	Does it Matter Whether Payroll Taxes are Levied on Firms or Employers? A Comparative Analysis
	T013	Weller, Christian	Buyer Beware: A Comparison of Returns under Social Security and Galveston County's Privatized Plan
	T012	Weller, Christian	Risky Business: A Stochastic Simulation of Social Security with Equity Investment
	T011	Palley, Thomas I.	The Minimum Wage and the Low Wage Labor Market: A Wage Curve Analysis
	T010	Palley, Thomas I.	The Beneficial Effect of Core Labor Standards on Economic Growth (<i>Revised as E036</i>)
1997	T009	Jorgensen, Helene	The Anatomy of Non-Standard Work: Downscaling of Jobs
	T008	Jorgensen, Helene	Why Union Workers Deserve Their Pay: The Efficiency Wages versus Insider-Outsider Debate Continues
	T007	Palley, Thomas I.	Asset based Reserve Requirements: An Unappreciated Instrument of Monetary Policy
	T006	Scott, Robert E. Lee, Thea Schmitt, John	Trading Away Good Jobs: An Examination of Employment and Wages in the U.S., 1979 - 94
	T005	Palley, Thomas I.	Restoring Prosperity: Why the U.S. Model is not the Answer for the U.S. or Europe

T004	Jorgensen, Helene Palley, Thomas I.	The Dynamics of Union Membership, 1983 - 1996
T003	Palley, Thomas I.	The Saving-Investment Nexus: How It Works and Why It Matters
T002	Palley, Thomas I.	Does Inflation Grease the Wheels of Adjustment? New Evidence from the U.S. Economy
T001	Friedman, Sheldon Jorgensen, Helene Silvia, Christine	How Unions Improve The Economic Security of American Workers

Policy Handbooks

Date Number Title

1999	H007	Workers' Rights at the World Trade Organization and in U.S. Trade Policy
	H006	Raising the Minimum Wage : Updated July 1999
	H005	Factbook on Union Membership and Earnings
1998	H004	Strengthening Social Security: A Guide for Working Families
	H003	Raising the Minimum Wage (<i>withdrawn and revised in H006</i>)
	H002	Paying More and Losing Ground: How Employer Cost-Shifting is Eroding Health Coverage of Working Families
	H001	The Union Difference: Fast facts on Union Membership and Pay in 1998

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AFL-CIO, Public Policy Department
Attn: Working Papers Administrator
815 16th Street, NW Room 504
Washington, DC 20006***

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. Herrnsstadt
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)

Environmental standards -

China \$10-15 a ton.

Access to capital

- steel expansion

AFL-CIO Gene and al.

Comprehensive approach Smith

Textile workers - labor standards
possible sanctions

Transatlantic / Sovereignty held by Charles J. Commerce

Gene - auto VAW

Teamster trucks

Byar - organizing

Audrey Choi
09/24/99 01:10:33 PM

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To: Martin N. Baily/CEA/EOP@EOP, Robert Z. Lawrence/CEA/EOP@EOP, Karen
Tramontano/WHO/EOP@EOP

cc:

Subject: afl-cio -- agenda

in advance of our meeting this afternoon to prepare for our AFL-CIO meeting next week, here's the read-out i just got from tom palley, in terms of their hopes for our meeting next week.

tom palley says he will send us a fax with a more specific agenda by tuesday of next week, as he is still in the process of canvassing the other folks who will be in the meeting. but from his perspective today, they would like to use this next meeting with us to discuss

- trade policy and its implications for manufacturing
- workforce training
- labor standards

in addition, they would like to discuss possibilities of using the tax code as a way of creating incentives or other remedies for domestic manufacturing.

they would also like to discuss the dollar -- though they are sensitive to the fact that we may not be able/want to say much about it.

tom says they are hoping to talk about some long-term strategies as well as some "immediate band-aids" to deal with the continuing erosion of manufacturing jobs.

THOMAS I. PALLEY
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 WASHINGTON, D.C. 20006
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 FAX #(202)508-6967

cc: JH
 RB
 AC

FAX TRANSMITTAL MEMO

DATE: 6/14/99

TO: Bob Lawrence, CEA

FAX NO. 395-6958

PAGES: 1
(EXCLUDING COVER SHEET)

COMMENTS: Bob, outline agenda. Please contact if you would like to discuss it further.

If there is a problem with this fax, please call: 637-5165

MANUFACTURING AND THE U.S. ECONOMY
DRAFT AGENDA

Introduction. The agenda detailed below aims to establish an understanding of the place of manufacturing in the U.S. economy - what is its significance and what are the factors explaining the evolution of manufacturing employment.

Having completed this first stage of analysis, the goal is to have another discussion addressing policy implications and possibilities.

Questions

- (1) The contribution of manufacturing to national productivity growth.

What is the contribution of the manufacturing sector to productivity growth, and how is national productivity growth impacted by a decline in the relative and absolute size of the manufacturing sector?

- (2) The significance of manufacturing jobs for wages and income distribution.

What is the impact of manufacturing jobs on wages and income distribution?

- (3) The relationship between the size of the manufacturing sector, the trade deficit, and the ability of the U.S. economy to follow a path of sustained full employment.

3.a. How has the declining relative size of the U.S. manufacturing sector impacted the U.S. trade deficit?

3.b. Is the current trade deficit sustainable?

3.c. If not, how does the council foresee the deficit being narrowed and what will be the impact on standards of living?

- (4) Long run trends in the manufacturing share of employment.

4.a. Over the long run this share is falling. What are the causes of this decline?

Shares of Employment
Accounted For by Manufacturing: By Race and Gender

	<u>1979</u>		<u>1983</u>		<u>1998</u>	
	<u>DM</u>	<u>NDM</u>	<u>DM</u>	<u>NDM</u>	<u>DM</u>	<u>NDM</u>
Males						
White	.187	.096	.153	.084	.131	.069
Non-White	.190	.107	.145	.099	.111	.087
Black	--	--	.145	.101	.113	.087
Hispanic	--	--	.146	.095	.109	.086
Females						
White	.087	.088	.070	.075	.057	.050
Non-White	.089	.102	.075	.102	.054	.074
Black	--	--	.067	.094	.047	.064
Hispanic	--	--	.093	.121	.059	.081

Shares of Manufacturing Employment
Accounted For By Less Educated Workers:
By Race and Gender

	<u>1983</u>				<u>1998</u>			
	<u>DM</u>		<u>NDM</u>		<u>DM</u>		<u>NDM</u>	
	<u>HSD</u>	<u>HSG</u>	<u>HSD</u>	<u>HSG</u>	<u>HSD</u>	<u>HSG</u>	<u>HSD</u>	<u>HSG</u>
Males								
White	.208	.424	.228	.434	.138	.377	.159	.372
Black	.394	.382	.344	.431	.194	.405	.125	.482
Females								
White	.209	.558	.305	.486	.131	.447	.195	.395
Black	.239	.553	.298	.471	.141	.463	.208	.503

DM is just not out roads

Factors Accounting for Changes in Industrial Production and Employment, 1993 - 1998 (total changes)

Period	Base Employment (thousands of jobs)	Change in Employment (percent)	Change in Employment (thousands of jobs)	Attributable to:			Change in Exports	Change in Imports
				Change in Consumption	Productivity Growth	Change in Net Exports		
Jan 93 - Dec 98	18656.4 Jan 93	2.47	461.1	55.2	-43.0	-9.7	17.3	-27.0
Jan 93 - July 97	18656.4 Jan 93	2.33	434.8	36.5	-29.5	-4.7	13.1	-17.8
July 97 - Dec 98	19091.2 July97	0.14	26.3	7.9	-4.5	-3.2	1.1	-4.4

Factors Accounting for Changes in Industrial Production and Employment, 1993 - 1998 (annual average rates)

Period	Attributable to:					
	Change in Employment	Change in Consumption	Productivity Growth	Change in Net Exports	Change in Exports	Change in Imports
Jan 93 - Dec 98	0.42	9.3	-7.3	-1.6	2.9	-4.6
Jan 93 - July 97	0.52	8.1	-6.6	-1.0	2.9	-4.0
July 97 - Dec 98	0.10	5.6	-3.2	-2.3	0.8	-3.1



THE CHAIRMAN

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

cc: RZL
RMB
AC

April 19, 1999

Dear David:

Thank you for your letter of March 22, 1999. We at the Council of Economic Advisers very much enjoyed our discussion on manufacturing jobs and trade policy issues.

We also welcome your suggestions for further discussion. We agree that the topics you have mentioned are worthwhile--namely, the nature of manufacturing jobs and the links between the trade deficit and the size of the manufacturing sector and policies to provide safeguards and deal with foreign subsidies--and we would like to discuss these issues further. In addition, we would welcome a presentation of your policy recommendations, both with respect to the U.S. trade policy agenda and with respect to domestic trade adjustment assistance.

We realize it may be difficult to cover all these topics in one session, so perhaps we can arrange two sessions: one to cover these additional empirical issues, and a second to deal with trade policy issues. Please contact my Chief of Staff, Michele Jolin (395-5084) to arrange dates for these follow-up meetings.

Again, we enjoyed our initial discussion and look forward to further exchanges.

Sincerely yours,

Janet L. Yellen

Mr. David A. Smith
Director
Public Policy Department
American Federation of Labor
Congress of Industrial Organizations
815 Sixteenth Street, N.W.
Washington, D.C. 20006

EXECUTIVE COUNCIL



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<http://www.aflcio.org>

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At the close of the meeting you suggested that we continue this dialogue, and I am writing to you about some areas where we think continued discussion could be productive. I am sure you and others will have additional thoughts and we welcome them.

1. Manufacturing Jobs

A key issue for us is the place of manufacturing jobs in the economy. In particular, we believe that there is something special about manufacturing jobs, and that this special character needs to be taken account of in the design of policy. We believe that manufacturing jobs matter for productivity growth, income distribution, the trade deficit, and the ability of the U.S. economy to follow a full employment growth path. Further research and discussion regarding the significance of manufacturing jobs is much needed. If our claim is right, national policy makers must aim to develop economic policies that take account of manufacturing's special place.

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A second issue of concern is the trade deficit. This issue is multifaceted. It includes how the trade deficit may affect the number of manufacturing jobs, whether the trade deficit is indicative of national economic failure or whether it is merely the expression of economic agents' spending preferences, whether the trade deficit can continue at current levels indefinitely, or whether it ultimately poses a threat to economic stability and full employment.

Dr. Janet Yellen
March 22, 1999
Page 2

3. Trade Policy

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Once again, I thought our meeting was a useful first step and look forward to your thoughts on how best to continue.

Best wishes,



David A. Smith, Director
Public Policy Department

DAS/kc
opeiu w, afl-cio

Exchange rates
Trade policy
"Industrial" policy - training
TAA
Tax treatment
Dollarization
Labor standards
Samet

NEWS

election currently underway against another AFSCME union representing state workers, Council 82.

"There's a real strong tide out there," said Quirk. "I think the people in CSEA are beginning to wake up."

CSEA, whose contract expires March 31, was the first of eight state employee unions to reach agreement with the state. Under the tentative agreement, wages would have increased by 2 percent in the first year, 2.5 percent in the second year, 3 percent in the third year, and 3.5 percent in the final year.

In announcing the contract vote, the union said the tentative contract involved no givebacks and protected all health coverage and existing benefits.

Mary Hines, a spokeswoman for the governor's Office of Employee Relations, said the state was disappointed with the vote and will return to the bargaining table as soon as possible.

By GERALD SILVERMAN

Child Labor

Advisory Committee Sets First Meeting; Aims to Improve Enforcement of Trade Laws

An advisory committee created by the Clinton administration and Congress to improve the enforcement of U.S. trade restrictions on imports manufactured with forced or indentured child labor is scheduled to conduct its first formal meeting April 9, the Treasury Department announced March 25.

Treasury Secretary Robert E. Rubin, who announced the organizations to be represented on the Advisory Committee on International Child Labor Enforcement, said enforcement of the ban is a top priority of the department and the U.S. Customs Service, which is charged with enforcing import restrictions.

Sen. Tom Harkin (D-Iowa), the leading proponent of more effective enforcement of trade restrictions, told reporters March 25 that he plans to urge the Senate Finance Committee to adopt new trade legislation making the elimination of child labor a "principle negotiating objective" in trade negotiations.

Harkin cited his dissatisfaction with the enforcement of existing restrictions on products made with child labor as the primary reason for setting up the advisory committee. One of the biggest obstacles to effective enforcement, he said, is identifying which goods passing through customs are made with child labor.

The advisory committee arose out of President Clinton's 1998 commitment in his State of the Union address to make the elimination of child labor a top priority of his administration.

The committee will include representatives of Treasury, Customs, the Departments of Labor, State and Commerce, as well as the National Economic Council, the U.S. Trade Representative, and House and Senate staffs.

The private sector members are Erik O. Autor, vice president and international trade counsel, National Retail Federation; Claude Brown, director of the Office of Corporate Affairs and Strategic Initiatives, International Brotherhood of Teamsters; Douglas Cahn, senior director of human rights programs, Rebock International Ltd.; Terry Collingsworth, secretary-treasurer, Rugmark Foundation-USA; Thomas J. Cove, vice president

of government relations, Sporting Goods Manufacturers Association; Linda F. Golodner, president, National Consumers League; Pharis J. Harvey, executive director, International Labor Rights Fund; Robin W. Lanier, senior vice president for industry affairs and trade development, International Mass Retail Association; Lucille J. Laufer, executive director, Oriental Rug Importers Association Inc.; L. Diane Mull, executive director, Association of Farmworker Opportunity Programs; Jeffrey F. Newman, president and executive director, National Child Labor Committee; Elliot J. Schrage, professor, Columbia University Graduate School of Business; Ambassador Sandy Vogelgesang, president, Everest Associates; Steven S. Weiser, partner, Graham & James LLP; and Lisa M. Woll, director, Convention on the Rights of the Child Impact Study.

International Labor

Brazil's Economic Crisis Hampers Mercosur Employment, Says Research Firm

BUENOS AIRES, Argentina—The Mercosur trade group's two largest job markets in Argentina and Brazil are beginning to weaken, feeling the affects of a slowing economy caused by Brazil's currency devaluation in January 1998, according to the Argentine research firm Sociedad de Estudios Laborales and Brazil's government statistic bureau.

Those two countries comprise 90 percent of the job market in the Mercosur trade group, which also includes Uruguay and Paraguay, with Bolivia and Chile as associate members.

The number of workers employed in metropolitan Buenos Aires—home to one-third of the country's 34 million people—fell by 0.8 percent in February compared to January, the Argentine firm said in a report released March 11.

The private sector, which accounts for 40 percent of total jobs, declined by 3.4 percent, or 50,380 jobs in February.

The employment numbers reflect how Brazil's economic woes have hurt demand and overall production in neighboring Argentina. Brazil is Argentina's largest trade partner, consuming one-third of its exports through the Mercosur trade agreement.

February was the fourth straight month in which employment dropped, according to the study. As a whole, employment in the greater Buenos Aires area decreased by 3.5 percent from the same month a year earlier. That is expected to push unemployment higher. The government releases these figures in June and December.

Exporters and importers were among the hardest hit, with employment levels dropping by 1.9 percent. Argentine exports to the Mercosur region fell 21 percent to \$471 million in January, while exports to countries of the North American Free Trade Agreement—the United States, Mexico, and Canada—fell 23 percent to \$146 million.

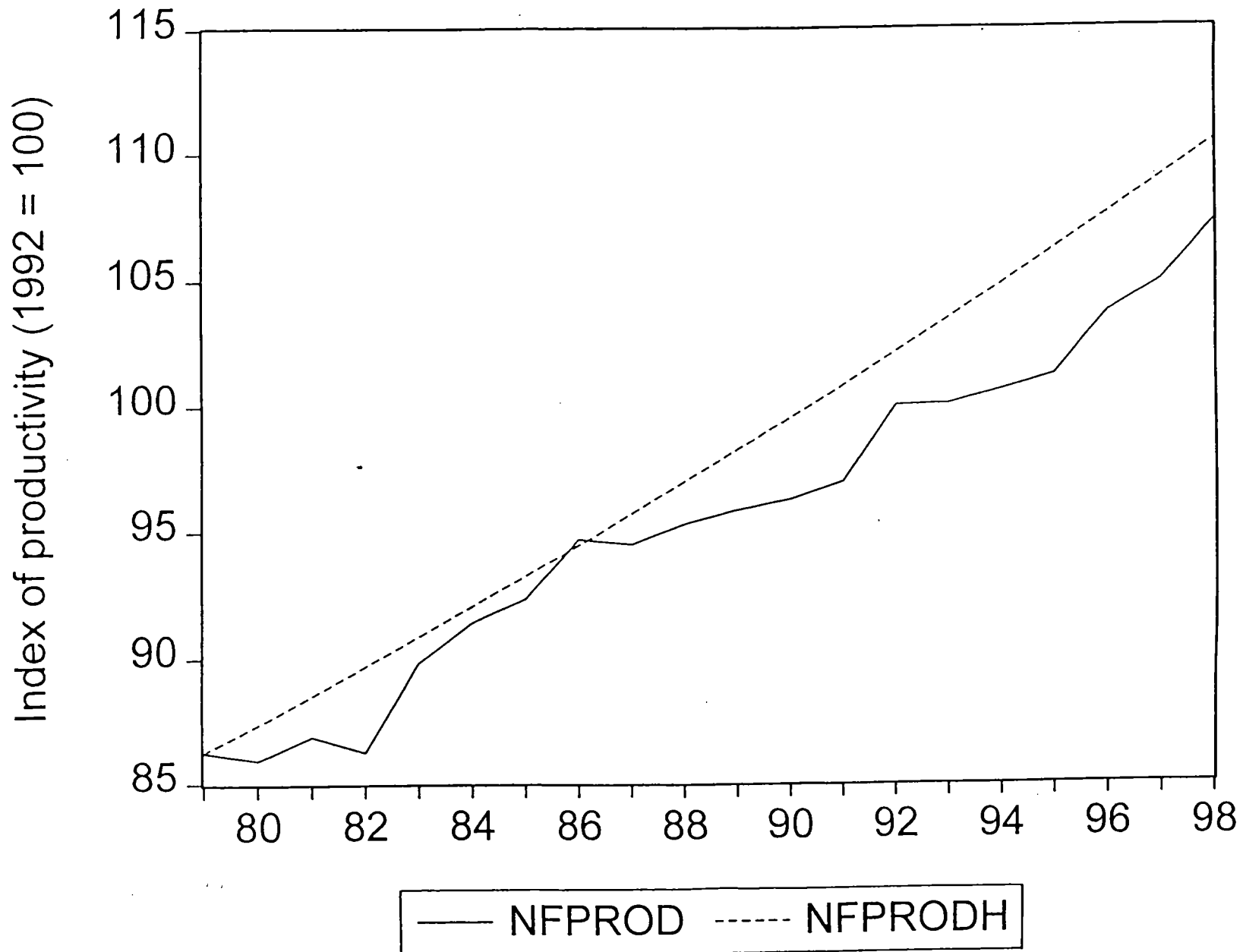
Automobile manufacturers have been the most affected, with their exports slashed by nearly half in January and February. Argentina sends more than half of its car production to Brazil. Volkswagen AG, Europe's biggest carmaker, expects to reach an agreement with workers to lay off about 20 percent of its workforce in

	Manufacturing	Non-manufacturing
1950 - 59	1.99	3.17
1960 - 69	2.67	2.88
1970 - 79	2.66	1.51
1980 - 89	2.57	0.57
1990 - 98	3.51	0.71

Table 2 Average productivity growth (output per hour) in the manufacturing and non-manufacturing private business sectors for selected decades.

"manufacturing is the engine of prod. growth"

Non-farm business productivity and estimated non-farm business productivity assuming a fifty percent slower decline in the manufacturing employment share.



	<-----Real hourly wage, 1998 dollars----->			
	1973	1981	1991	1998
Manufacturing	14.11	14.46	13.38	13.50
Durable goods	15.00	15.43	14.06	13.96
Non-durable goods	12.78	13.00	12.50	12.58
Median	11.79	11.19	11.29	11.29
Average	13.60	13.12	12.35	12.78

	<-----Ratio hourly:median wage----->			
	1973	1981	1991	1998
Manufacturing	1.20	1.29	1.20	1.20
Durable goods	1.27	1.38	1.25	1.24
Non-durable goods	1.08	1.16	1.12	1.11

Table 4 Real hourly wages (1998 dollars deflated by the CPI-U-X1) and manufacturing wage premia relative to the median hourly wage (50th decile cut-off wage from the CPS survey).

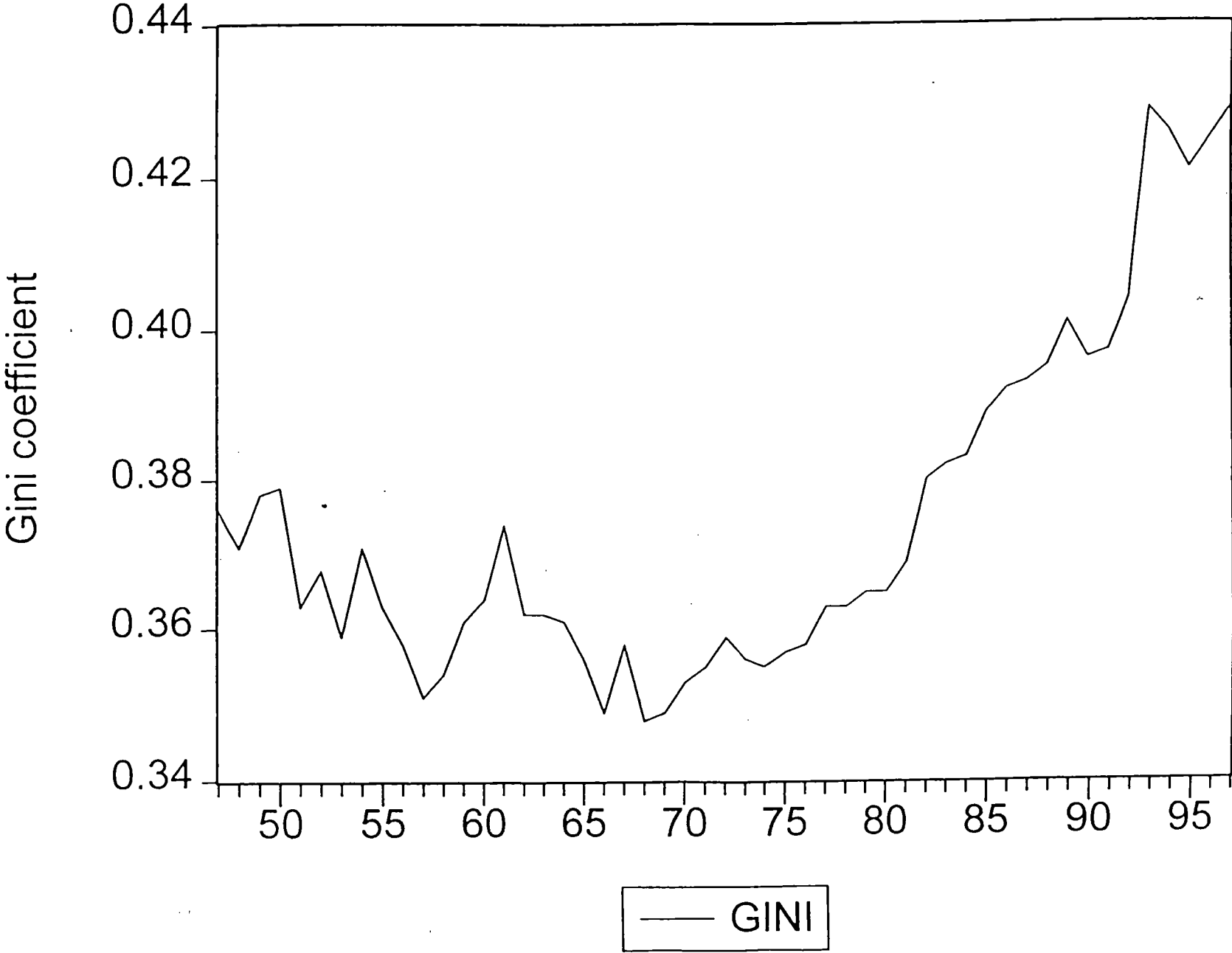
((sized)manuf industry will has positive ^{productivity} effect for county as whole"

	Manufacturing	All Wage and Salary
20x Number of workers (millions):		
High school degree or less	11.5	52.3
More than high school	9.5	67.0
Total	21.0	119.3
Distribution (percent):		
High school or less	54.8	43.8
More than high school	45.2	56.2
Total	100.0	100.0

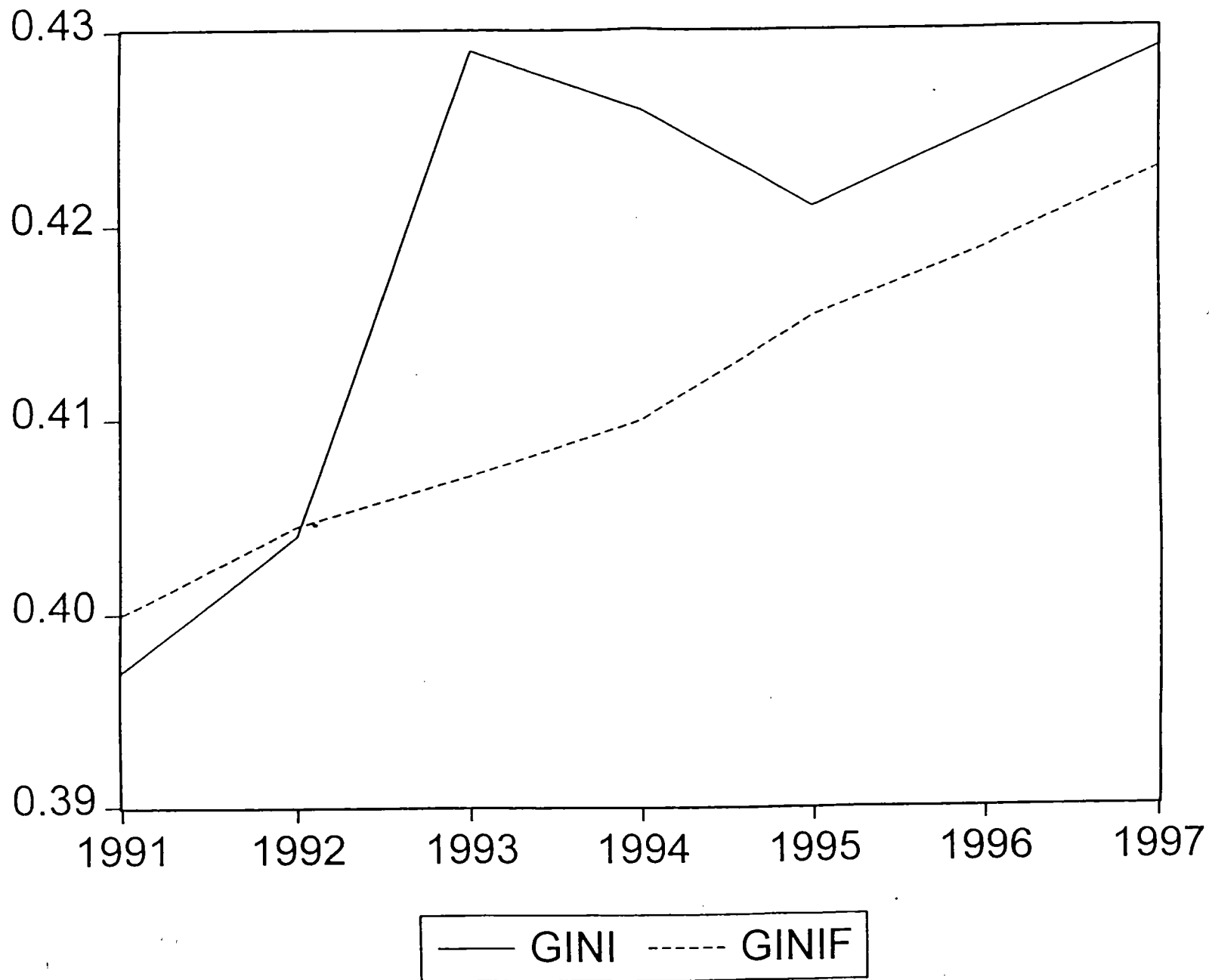
Table 5 Number of workers and distribution of workers in manufacturing and wage and salary employment by educational attainment. Source: 1998 CPS survey.

wages, income distribution etc

Gini coefficient for U.S. family income.
Source: U.S. Census Bureau



Actual and out of sample forecast of the U.S. family income gini coefficient.



	1968	1997	Change 1968-1997	Percent of change
Constant	0.565	0.565	-	-
Manufacturing emp.share	-0.139	-0.071	0.068	81%
Unemployment rate	0.005	0.007	0.007	2%
Real minimum wage	-0.035	-0.029	0.006	7%
International openness	-0.046	-0.038	0.008	10%
PREDICTED GINI	0.350	0.434	0.084	100%
ACTUAL GINI	0.348	0.429	0.081	100%

Table 6 Decomposition of sources of change in the gini coefficient.

Table 6. Explaining Deindustrialization, 1970-94

	Change in Share or Manufacturing Employment	Change Due to:						Residual
		Normal growth	Investment	Total internal	North-south trade	Other trade	Total trade	
Industrial countries	-8.7	-6.9	-1.5	-8.4	-1.6	0.1	-1.5	1.2
United States	-10.4	-7.8	-0.6	-8.4	-2.0	-0.5	-2.5	0.6
European Union	-9.5	-6.0	-2.0	-8.0	-1.6	0.2	-1.4	-0.1
Japan	-3.3	-8.0	-1.9	-10.0	-0.9	1.3	0.4	6.2

Notes: This table decomposes changes in the employment share of manufacturing. The estimates shown here are based on regression equation (9) in Table 4. The column showing the residuals includes the interaction effects due to the nonlinear (logarithmic) form of the estimated equation. "Normal growth" refers to the income effect estimated from the income coefficient in equation (9); it includes the effect of those productivity and price changes that are normally associated with rising incomes. It excludes the effect of abnormal price and productivity changes, in particular the effects of abnormal productivity growth arising from competition with low-wage countries. The latter is included under the heading "north-south trade."

Robert Rowthorn and Ramana Ramaswamy

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	Absolute impact	Percent of change
Direct effect of openness on gini:	0.008	10%
Indirect effect:		
Per Rowthorn and Ramaswamy (1999)		
1970 - 94 Manuf. emp share decrease 10.4 points		
Trade contributed to 2.5 points (24%)		
indirect effect of trade on gini coefficient	0.014	19.5%
Absloute indirect impact = .24 x 0.068		
Percent indirect impact = .24 x 81%		
Total effect on increase in gini	0.022	29.5%

Table 7 Calculation of total impact (direct and indirect) of increased international openness on the U.S. family income gini coefficient.

Robe. C @ do. Treas. gov

<u>Invitee</u>	<u>Phone</u>	<u>FAX</u>	<u>RSVP for 5-26</u>	<u>RSVP for 6-2</u>	<u>6-1</u>
David Walters, USTR	x53583	x59668	ok	ok	VM
Sharon Lael Brainard, NEC	x65353	x61605 w2878	ok		VM
Bob Cumby, Treasury ^{5/24} <i>left voice msg</i>	622-0572	622-2633	ok		
Robert Shapiro, Commerce ^{5/24} <i>left msg</i>	482-3727	482-0432	OK	OK	✓
Jon Orszag, Commerce ^{5/24} <i>left msg</i>	482-3520	482-4636	ok		✓
Ed Montgomery, Labor	693-6002	693-6143			✓
Harry Holzer, Labor <i>Chief Economist</i>	693-6004	693-6146	okay Regret	ok	✓
William Samuels, Labor	693-6002	693-6143	ok(?)		✓
Karen Tramontano, WH	x66797	x62883	okay		
Reek Samaras ^{left} <i>msg</i> NEC	66278 65415				

Robert has
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Mtg.

(Handwritten note in a circle)
Lael Brainard
VM
esdol
dol.gov

Called
6-8

next meeting ~~by~~ Edward

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(202) 637-5000
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March 22, 1999

Council of Economic Advisers
Old Executive Office Building
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Washington, D.C. 20502

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Dr. Janet Yellen
March 22, 1999
Page 2

3. Trade Policy

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Once again, I thought our meeting was a useful first step and look forward to your thoughts on how best to continue.

Best wishes,



David A. Smith, Director
Public Policy Department

DAS/kc
opeiu w, afl-cio



MEMBER

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

November 19, 1999

*CES: AWJ
HE
KS*

*K
AFL-CIO*

MEMORANDUM TO KAREN TRAMONTANO, OVP
ROBERT SHAPIRO, COMMERCE
JON ORSZAG, COMMERCE
DAVID WILCOX, TREASURY
ROBERT CUMBY, TREASURY
HARRY GRUBERT, TREASURY
WILLIAM SAMUEL, LABOR
HARRY HOLZER, LABOR
ED MONTGOMERY, LABOR
DAVID WALTERS, USTR
KEN FRIEBERG, USTR
RICK SAMANS, NEC
MALCOLM LEE, NEC
IAN BOWLES, CEQ

FROM: ROBERT LAWRENCE *RL*

SUBJECT Today's Meeting with AFL-CIO Representatives

This is a reminder that the meeting with the Union representatives will take place today at 3:00 p.m., in Rm. 324, OEOB. Dr. Martin Baily will chair the meeting. If you have not already done so, please provide your clearance information to Alice Williams as soon as possible. She is reachable at 202-395-5042.

The agenda items are:

- 1) Import surges
- 2) Offsets
- 3) Environmental regulation and competitiveness
- 4) The need for capital in manufacturing
- 5) The impact of non-neutral taxes on international investment (if time allows)

AFL-CIO MEETING
Friday, November 19, 1999
3:00 p.m.

Room 324 OEOB

Attendees: Administration

Martin N. Baily, CEA
Robert Z. Lawrence, CEA
Kathryn L. Shaw, CEA
Audrey Choi, CEA
Karon Tramontano, WH
Robert Shapiro, Commerce
Jon Orszag, Commerce
David Wilcox, Treasury
Robert Cumby, Treasury
Harry Grubert, Treasury
William Samuels, Labor
Harry Holzer, Labor
Ed Montgomery, Labor
David Walters, USTR
Rick Samans, NEC
Ian Bowles, CEQ

AFL-CIO

Thea M. Lee, AFL-CIO
Mark Levinson, UNITE
Robert E. Lucore, Teamsters
Thomas I Palley, AFL-CIO
David A. Smith, AFL-CIO
Ron A. Bloom, USWA
Owen E. Herrnsstadt, IAM
Robert Pajkovski, UFCW
Michael E. Conyngham, IBT

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3:00 p.m.
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Bernard Carreau, Commerce
William Reinsch, Commerce
Malcolm Lee, NEC
Ken Frieberg, USTR

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Michael E. Conyngham, IBT

NOV 19 - 3:00

APR 1999
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F
APR 6-610

May 26, 10:00am pre-meeting invitees:

David Walters, USTR	x53583	x59668
Lael Brainard, NEC	x65353	x61605
Bob Cumby, Treasury	622-0572	622-2633
Robert Shapiro, Commerce	482-3727	482-0432
Jon Orszag, Commerce	482-3520	482-4636
Ed Montgomery, Labor	693-6002	693-6143
Harry Holzer, Labor	693-6004	693-6146
William Samuels, Labor	693-6002	693-6143
Karen Tramantono, WH	x66797	x62883
Janet Yellen, CEA	x55042	x56958
Robert Lawrence, CEA	x55046	x56958
Becky Blank, CEA	x55036	x56947
Nouriel Roubini, CEA	x53310	x56853

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, Labor
Jorge Perez-Lopez, Labor
Robert Cumby, Treasury
William Samuels, Labor
Harry Holzer, Labor
Edward Montgomery, Labor
Tom Kalil, NEC
Dorothy Robyn, NEC
Michael Daum, NEC
Rick Samens, NEC
Ian Bowles, CEQ/NSC**

AFL-CIO

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Thomas I. Palley
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Robert E. Lucore, Teamsters
Steve Beckman, IGC
Cary E. Burnnell, USWA
Owen Herrnstadt, IAM**