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THE WHITE HOUSE

WASHINGTON, D.C. 20500

DATE: 4-30

TO: Leon Evelyn
Harold
George

FROM: Staff Secretary

Do you have any view on either the London proposal or the Rohatyn proposal discussed on p. 2?

Todd

cc: Gene

VP

THE WHITE HOUSE

WASHINGTON

96 APR 29 P7:23

April 29, 1996

MEMORANDUM TO THE PRESIDENT

FROM: LAURA D'ANDREA TYSON

RE: TASK FORCE ON ECONOMIC GROWTH

At your last meeting with Felix Rohatyn in New York in March, you spoke with him about the possibility of establishing a task force to develop proposals on how to increase the economy's growth rate. You will recall that you also met with Felix and a small group of CEOs to discuss this issue last September. Since that time several business leaders and the National Association of Manufacturers have stated publicly that they believe the economy is capable of faster growth without inflation, and Felix made that case in his recent opinion piece in the Wall Street Journal. Meanwhile, the new chain-weighted output numbers for the economy indicate that its sustainable growth rate is lower, not higher, than the 2.5% which the Administration had been using in its earlier economic forecasts, and the new forecast is based on a sustainable growth rate of only 2.3%.

The growth issue may prove to be an important one in the upcoming campaign, and your advisers are already working to refine our economic message in terms of how our policies are designed to increase economic growth. One way to draw attention to this issue would be to include it in a major speech on your economic vision and agenda sometime later this spring.

Another way to illustrate your commitment to the growth issue would be to establish a task force of the type you briefly discussed with Felix. The attached letter from Paul London of the Commerce Department contains a specific proposal for such a task force to be established by executive order and to be modeled after the President's Export Council.

Many of your political and economic advisers believe, however, that a Presidentially-appointed growth task force entails some significant downside risks, the most important of which is that we may find ourselves opposing many of its likely recommendations like serious tort reform, tax reforms that reduce the burden on capital and increase it on labor, and entitlement reforms, like the privatization of Social Security or means-testing of Medicare and Social Security. The task force might also want to recommend a different course for monetary policy, thereby implicitly criticizing the Federal Reserve and calling into question our policy of avoiding commentary on the Fed.

As you know, we are already confronting the political challenge of how to respond to the controversial recommendations of the President's Advisory Panel on Social Security, which is scheduled to report to you sometime this spring. If we appoint a growth task force, we could confront a similar challenge in responding to its recommendations, including those which are leaked during its preliminary meetings prior to the election. In light of these risks, many of your advisers, including me, recommend against the formation of an Administration task force on growth. And if you were to decide in favor of such a task force, Paul London's proposal itself would raise a serious problem because of possible internal conflicts on the growth issue between Commerce on the one hand and Treasury, CEA and NEC on the other.

Last week Felix called me to inquire about your possible interest in an alternative approach. The Competitiveness Policy Council, which was established by the 1978 Omnibus Trade Bill, and which is headed by Fred Bergsten, wants to use its remaining budget to finance a Subcouncil on Economic Growth, and Fred has asked Felix and Dana Meade to co-chair. The Council has statutory authority to establish such a subcouncil, subject to the conditions that it have bi-partisan membership and that it include members from business, labor, government and the general public. (Traditionally, the government participant on subcouncils has been an administration official, but the Administration itself does not appoint other subcouncil members.) Felix is interested in participating in such an effort, but he asked me to inquire about your interest both because he does not want to waste his time in an exercise that may be of no use to you and because he wants to avoid doing anything that might harm your re-election.

My own view is that it is unlikely that the formation of a CPC subcouncil on growth could cause much political difficulty for you because it would be an independent entity, not a Presidentially-appointed commission. In addition, there is no requirement that an Administration official serve on the subcouncil, although Fred and Felix would like someone from the Administration to participate. The only immediate risk posed by the subcouncil's formation would be possible questions from the press about whether the Administration supports it.

At the same time, I think it unlikely that the subcouncil will develop many new recommendations, and it may re-cycle some problematic old ones, like tort reform and capital gains tax relief. Whatever its final recommendations, there is no way to guarantee to Felix that you and your economic team will either endorse them or incorporate them into your second-term agenda.

On balance, I recommend that the Administration take a neutral position on the formation of a CPC subcouncil on growth, treating it as an independent entity and that we not appoint an Administration official as a member. This will disappoint Felix but it is probably the safest course of action in this political year.

Please let me know if you want to send Felix a message about your views concerning a CPC subcouncil or if you have any questions or reactions to the Paul London proposal.

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: April 23

TO: Leon
Laura

FROM: Staff Secretary

Any view on this?

Todd

CC: Harold
Evelyn

UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
Washington, D.C. 20230

96 APR 23 P1:05

April 23, 1996

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Re: A President's Council on Growth Potential

You asked me to think about how you could continue Felix Rohatyn's involvement in the growth debate without getting bogged down in a discussion of tax measures. I agree that it would be useful to have a forum that would give business groups that share Rohatyn's view on growth more visibility and legitimacy, and that a structure is needed that minimizes problems. One possibility would be an executive order establishing a "President's Council on Growth Potential" modeled after the President's Export Council (PEC) and guided by Mickey Kantor on your behalf. (The PEC has business, Senate, House, and eight (8) agency representatives on it.)

<u>- Expanding the Growth Debate</u>

You framed the growth issue in New York when you said that tighter job markets would be the "free market" way to reduce the insecurity of those being "downsized", draw marginal workers into the work force, and raise wages of those whose incomes have been growing too slowly. You also have said that even a small increase in growth over several years would largely "solve" the deficit problem.

Members of the CEA, the Fed, and economists like Paul Krugman, do not agree with Rohatyn and other business leaders, who believe that 3 or 3.5 percent growth is possible over the longer term. However, Krugman has said that it might be possible to have faster growth temporarily, which would act as a test to determine the level of labor market tightness that creates inflationary pressures. I have heard members of the CEA say essentially the same thing because they see that the NAIRU may be lower than 6.0 or even 5.5 percent. "Testing lower levels unemployment" is a logical next step.

(The debate is complicated, as you recognize, by the fact that the economy may be growing at more than 2-2.5 percent already and inflation probably is lower than it appears because it is so difficult to measure productivity and quality improvements, especially in services.)

ECONOMICS AND STATISTICS ADMINISTRATION

- The President's Council on Growth

It would be useful to involve Mickey Kantor and the Commerce Department more fully in the debate about the NAIRU and "growth potential" but there is likely to be opposition from the CEA, Treasury, and others. Commerce, however, brings closer ties to non-financial businesses and a micro-economic perspective to the debate that these other agencies lack. Indeed, Ron always favored faster growth, wanted to argue that Administration programs like technology, trade and deregulation were limiting inflation (not just the Fed), and was starting to talk about faster growth in speeches just before he died.

Two years ago with Ron's support I set up an interagency Working Group on the Pricing Outlook, which would help a new Presidential Council on Growth Potential get off to a fast start. The WG draws on over 100 industry experts at the DOC, and has been able to enlist others from USDA and DOE. Late in 1994 and early in 1995, when the prices of primary and intermediate goods were rising, the industry experts almost all believed that price pressures would not last, and they were right. This micro-economic perspective is useful input to the CEA, Treasury, and the Fed, which have primarily a macro focus. And it is useful, while focusing on growth potential, to have an "inflation watchdog" that looks at specific industries and services and can be pointed to by the Administration.

Giving Mickey this assignment would be a way to involve Rohatyn and business groups like NAM and the Chamber, so that policies for fuller employment are not seen as a "liberal labor issue". And such a Council under Mickey could stay clear of tax issues which are in Treasury's bailiwick. (Under the aegis of Commerce it would make sense for the Advisory Council to focus on the role of technology, exports and trade, and competition and industry structure in making lower unemployment and faster growth possible.) Other agency heads could participate as they do on the PEC, and the group could work closely with CEA, Treasury, Labor and the Congress.

Turf problems are inevitable, but I believe they would be worth the risk to get Mickey involved and to tie in business leaders, who give faster growth and lower unemployment a more centrist or even conservative appeal.

Sincerely,

Paul A. London
Deputy Under Secretary for
Economic Affairs