FOIA Number: 2017-0401-F

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Subseries:

OA/ID Number: 20870

FolderID:

Folder Title:
Yellen Speech (Fast Track) (Written by Rudd, Edited by JH) 9/11/1997

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The Continuing Importance of Trade Liberalization

<PRELIMINARY DRAFT: 7/ix/97>

Janet L. Yellen, Chair
Council of Economic Advisers
11 September 1997
Smith-Barney Washington Conference

The basic goals of the Clinton Administration's economic policies are simple and uncontroversial. First, to secure rising living standards now and in the future. And second, to ensure that the benefits of a rising standard of living are extended to all Americans. To attain these ends, the Administration's economic agenda has been based on three key policy initiatives: deficit reduction, investing in people through education and training, and opening markets worldwide to U.S. goods and services.

It is this third initiative--promoting free and fair trade--that I intend to discuss today. From his first days in office, President Clinton has advocated an outward-looking, "internationalist" trade policy. During the first four years of the Clinton Administration, over 200 trade agreements were ratified and implemented, some relatively large in scope--such as NAFTA and the Uruguay Round of GATT--others relatively small, but all vital to our nation's competitive future. President Clinton intends to extend and build upon this record during the Administration's next four years.

The single most important next step in the Administration's effort to open markets abroad and expand trade is for Congress to renew the President's authority to negotiate trade agreements on a "fast track" basis. Fast track authority allows the President to work out trade agreements with other countries, and then requires Congress to take an up or down vote on the *entire* agreement. In other words, Congress cannot in effect reopen negotiations by adding or deleting individual provisions of a trade agreement by amendment during Congressional debate. Instead, Congress must vote on the agreement as a whole. Of course, the final decision as to whether a trade agreement--in its entirety--should be approved or disapproved remains in Congress's hands under fast track authority.

Every President since 1974 has received fast track authority from Congress. Why is it so important? The answer is that fast track lends credibility to trade negotiations--under fast track, the parties to a trade agreement know that any provisions that are agreed upon cannot later be renegotiated individually, nor can such renegotiation even be threatened. (In addition, I would add that fast track has another benefit--that of fostering bipartisanship between the President and Congress. Fast track authority has consistently been vouchsafed the President by a bipartisan Congressional majority--which is unsurprising inasmuch as the goal of freer and more open foreign markets is shared by both political parties.)

The need for this provision was made clear in the early 1970s when the Europeans expressed their unwillingness to negotiate further trade agreements with the United States. This attitude on the part of the Europeans resulted from the failure of congress to ratify the Kennedy Round GATT agreement in its entirety. In 1974, therefore, congress developed and passed legislation providing the president with fast track negotiating authority. I might add that congress has a long history of yielding its authority on international trade agreements to the president. Ever since the disastrous Smoot-Hawley tariff act, the president has had the authority to negotiate bilateral trade agreements; this power was traditionally limited to reducing tariff barriers. The need for broader negotiating authority arose in the 1960s as negotiations turned increasingly multilateral in scope and towards

other types of barriers to trade; barriers such as quantitative restrictions and domestic policies that distort trade flows.

The success of the early tariff reducing authority is readily apparent; between 1930 and 1960, tariffs imposed on US goods fell to a mere fraction of their 1930s levels. The success of fast track is equally impressive; since 1974, the Tokyo and Uruguay GATT agreements, two of the most successful GATT rounds of negotiations in history, have been concluded, as have important bilateral agreements with Israel, Canada and Mexico.

At present, what need is there for fast track authority? And what would the Administration use it for? One particularly important initiative that is currently on our agenda involves extending NAFTA to include Chile. Today, every major economy in this hemisphere--save the United States--has a preferential trade agreement with Chile. What this means in practice is that U.S. firms face tariffs in Chile that make their goods 11 percent more expensive than those of competing firms from other countries. This is a serious competitive disadvantage.

In addition, there now exist a number of other opportunities to reduce trade barriers in sectors where the United States is competitive. Some of the opportunities arise in connection with scheduled World Trade Organization negotiations covering such industries as agriculture and services. Others arise from new sectoral initiatives such as the Information Technology Agreement, or ITA. The recently concluded ITA represents a $5 billion tariff reduction for American products sold to other countries. In the fall, the Administration intends to launch a second such initiative, along with similar initiatives for other sectors.

The pace with which preferential trade agreements are being negotiated between and among countries around the world is so fast that the United States can easily be left behind through inaction. Since 1992, other countries have negotiated twenty preferential trade agreements in Latin America and Asia that exclude the United States. The European Union has begun a process that will culminate in a free trade agreement with Brazil, Argentina, and other MERCOSUR nations; President Chirac of France has even gone so far as to declare that the economic interests of Latin America "lie not with the United States, but with Europe." And within South America itself, the four MERCOSUR countries are attempting to extend their preferential trade arrangements to encompass the entire continent. Moreover, other countries are aggressively pursuing expanded foreign trade. For example, China has targetted a number of Latin American countries--including Chile, Mexico, and Brazil--for increased bilateral trade.

It is evident from all this that now, more than ever, continued engagement with the global economy will require an active effort on the part of the United States, and an extension of fast track authority must be an integral component of this effort. But a fair and important question to ask at this point is: why is free trade so important? Why should we be concentrating so much effort in pushing for more open foreign markets, and how does freer trade contribute to the Administration's goal of securing higher living standards for all Americans? In short, what are the benefits of free trade for the U.S. economy? I would like to use the remainder of my time to address this question--which, in fact, speaks to my own comparative advantage as an economist.

I would begin by first saying that one of the benefits of free trade is not, as is sometimes supposed, an improved overall current account or trade balance. The Administration's policies do indeed affect the current account, but it is its budget, saving, and investment policies, not its trade liberalization policies, that do so. The current account is a macroeconomic phenomenon that reflects the gap between what we as a nation invest and what we save. The large budget deficits of the 1980s and early 1990s reduced the amount of saving that was available to cover the nation's investment in plant and equipment (investment was choked off too, but not by as much), and this shortfall had to be filled by importing goods from abroad. In an important sense, the nation was overconsuming in the 1980s, financing its consumption binge by borrowing output from foreigners. The result was a large and persistent trade deficit.

Today, we still face a trade deficit, but for a very different reason. Reducing the government's budget deficit has left more room for investment in plant and equipment by the private sector. And invest it has: since 1993, real business fixed investment has grown nearly nine percent per year on average, a much faster rate than that of the preceding ten years. This rate of investment is above the rate at which Americans save--even with the federal government dissaving less by virtue of its smaller budget deficit. So, once again the shortfall is made up for by borrowing output from abroad, with the result being a current account deficit. But there is a big difference between borrowing in order to invest--as the economy is doing now--and borrowing in order to consume, as we did in the 1980s. In fact, running a trade deficit in order to expand the nation's productive capacity is not new to American history--in the 1800s, we did much the same thing in order to build up the nation's infrastructure, most notably during the railroad construction boom a century ago.

So it is not the gap between imports and exports that is relevant as far as trade policy is concerned. But the level of trade--the "openness" of the U.S. economy--does matter. In recent years, the United States has seen rapid growth in its degree of exposure to the world economy: real U.S. imports of goods and services grew at an average rate of 11 percent over the past four years, while real exports grew at an average rate of 10 percent per year. In the current recovery, export growth has been responsible for roughly a third of overall GDP growth. The United States now exports an amount equal to 13 percent of its GDP every year and imports an amount equal to 15 percent of GDP; to put these figures in perspective, the corresponding figures for the 1960s were four and five percent, respectively. The American economy is now more open than at any time in its history.

What are the benefits of an open economy? Economists generally recognize two broad classes of benefits, the first being static, the second dynamic. I would like to discuss each in turn.

Ever since the work of Adam Smith and David Ricardo, economists have recognized that trade helps an economy by allowing it to specialize in what it does best. Adam Smith argued that specialization--the division of labor--enhances productivity, but noted that the degree to which an individual or a nation could specialize depended critically on the extent of its market. We all know the story of Robinson Crusoe, who, alone and isolated, had to do everything for himself: farm, weave cloth, build shelter, and so on. But if a group of Robinson Crusoes can trade amongst themselves, each can specialize in the production of what he or she is best at doing--thus producing more than would be possible were their attentions divided among goods which they are less skilled at making--and then can trade with his or her neighbors for the goods which they in turn are good at producing.

It might even be the case that one individual (or country, to drop the Robinson Crusoe analogy) is better than anyone else at producing *every* good. Such an argument is often invoked in order to "prove" that the U.S. cannot benefit from trade with a country such as Mexico. But it turns out that the argument in favor of free trade still carries the day. All that is required is for a country to be *relatively* less skilled than another in the production of some good in order for it to benefit from trade. This is, of course, the doctrine of comparative advantage--the fundamental (if perhaps counterintuitive) principle that underlies the theory of international trade.

This, in a nutshell, is the "classical" view of the benefits of free trade. It is important to note that the benefits from trade under the classical doctrine are primarily static in nature--that is, they affect the *level* of output. Moving from a situation in which there is less trade (or no trade) to one in which trade is freer raises output, but this is more along the lines of a one-time increase (even though it might take a number of years for the benefits from trade to be fully felt). This is not to dismiss the significance of these static benefits: for example, some economic historians have argued that most of the economic growth that occurred in the classical world was rooted in the expansion of markets that took place as a result of increased sea trade around the Mediterranean.

Recently, a new view of international trade has emerged which argues that increased trade actually raises an economy's *rate of growth*. If this is in fact the case, it makes the case for trade liberalization an even more compelling one. Raising the growth rate of the nation's economy, even by a few tenths of a percentage point per year, has vastly more significance for long-run living standards than even a relatively large one-off increase in the level of output; the reason, of course, is that a small increase in the economy's rate of growth cumulates over time to yield large gains.

What is the rationale behind the new trade theory--in other words, what is the source of the "dynamic" benefits from trade? Well, we know that economic growth has two sources: either we can increase the amount of inputs (capital, labor, and raw materials) that we feed into the productive process, or we can make those inputs more productive, through innovations in technology, better education and training, and so on. (In fact, this latter factor is necessary if the economy is to grow in per-capita terms in the long run, as sooner or later simply accumulating more inputs will run up against the law of diminishing returns.) The static benefits of trade represent a one-off increase in this latter factor: specialization lets us allocate labor and capital to the production of goods that we are relatively good at producing, making a given amount of labor and capital more productive in a manner that is not unlike an improvement in managerial technique.

The new view of international trade also focusses on this second factor, but argues that international trade can actually increase the rate of innovation and technological change. One economist has summarized the argument with the following catena:

- International trade leads to greater competition;
- Competition induces greater innovation; and,
- Innovation (*i.e.*, technological change) drives economic growth.

(It's a simple notion once you think about it--though it will probably win the economists who thought it out a Nobel prize some day.) **This competition leads not only to technological change, but to higher quality products as well; perhaps nowhere is this more apparent than in the automobile industry. The automobiles of the early 1970s had more in common with the Model T than they do with the cars of today. Cars sold today last longer, require less maintenance and ride much more comfortably. International trade has brough about competition in the automobile industry the likes of which it has never experienced.**

In a sense, the emphasis of the new trade theory on the dynamic benefits of international trade comes full circle to Adam Smith. Although Smith's contribution to trade theory is generally seen as providing an argument in favor of free trade that highlighted the role of specialization in raising productivity, he also pointed out that specialization, by acquainting workers with a specific productive process, could give them insight into how such processes might be improved--thus fostering innovation. New trade theory also incorporates elements of Joseph Schumpeter's theory of "creative destruction," in which the competition that is a fundamental feature of a capitalist economy serves as a motive force for the economy's progress.

The new view of international trade represents a valuable contribution to academic economics. But theory alone cannot provide an airtight argument in favor of trade liberalization. There is, however, a large body of empirical literature which attempts to determine what drives economic growth across countries. Unsurprisingly, investment in physical capital--plant and equipment--and investment in human capital--education, for instance--are two factors which have a profound influence on economic growth. But these same studies have also found that an economy's degree of openness--as proxied, say, by the amount that it imports and exports relative to its overall output--has an effect on its rate of growth.

Now, this empirical result--that more open economies grow faster--can be (and has been) criticized on the grounds that it does not truly reflect a causal relationship. Two of my colleagues at Berkeley--one of whom, Jeffrey Frankel, is now also at CEA--recently added to the literature on this topic with a paper that attempts to address this shortcoming. Interestingly, they determined that the effect of openness on economic growth is actually *larger* once the causal effects are clearly isolated.

In an ideal world--the world in which economists live--free trade unambiguously benefits the economy *taken as a whole*. This is true in the real world as well, although the ideal case masks the fact that some will gain from freer trade, but others may lose--even though on net the winners could compensate the losers and still have something left over. In practice, increased globalization will induce reallocations of labor and capital across sectors as the focus of American industry moves to the production of those goods and services which we are relatively good at producing. Because our economy is not frictionless, these adjustments sometimes involve lengthy periods of dislocation until the reallocation of labor and capital across industries is complete. Policymakers advocating freer trade must be aware of this fact, and the Clinton Administration has realized from the beginning that it is the government's duty to minimize the impact of this dislocation by speeding up the adjustment process however it can. For example, one of the key provisions of NAFTA involved monitoring those industries that were in danger of being adversely affected by the free trade agreement, and the Administration committed itself early on to providing for dislocated workers through retraining programs. And, more generally, the Administration's commitment to investing in people through education and training serves as a strong complement to its policy of trade liberalization: since freer trade tends to benefit skilled workers most, the United States enjoys greater benefits from trade to the extent that more of its workers are highly skilled. In the end, though, those who would point to the short-term adverse effects of trade liberalization should not lose sight of an important point: Trade liberalization might adversely affect a small fraction of American workers in their role as producers, but it benefits all workers in their role as consumers.

I have outlined some compelling theoretical arguments and suggestive empirical results that together indicate that freer trade benefits an economy in a profound way. I would also like to suggest a further way in which the economy might benefit from increased globalization, one which has recently been on our minds more and more at CEA. This involves the effect of globalization on the NAIRU, or natural rate of unemployment. Recently, economists have seen some pretty strong evidence that the NAIRU has fallen over the past few years, implying that the unemployment rate can reach a lower level than previously thought without leading to a buildup in wage and price pressures and an eventual increase in inflation. The reasons for this decline in the NAIRU are not well understood--economists are only just coming to a consensus that it has in fact declined--but it seems plausible that the increasing competitiveness of labor and product markets that globalization fosters has been an important factor in restraining nominal wage pressures, lowering producers' markups, and keeping the cost of raw materials down in the face of higher levels of domestic production. The result of a decline in the NAIRU is a sustainable, *long-run* increase in the level of GDP--which is another way of describing the static benefits of free trade.

The benefits of increased openness, increased international trade, are wide ranging. They can, however, be summarized as resulting in a more efficient utilization of resources, faster productivity growth, higher quality goods, and lower prices, all of which raise living standards.

In closing, I would note that I have said nothing of the benefits of trade that arise simply from the fact that it links the economic interests of nations more closely. John Maynard Keynes once argued that the greatest tragedy visited upon Europe by the First World War was the disruption of the system of international trade that was a hallmark of the European economy before 1914. The eventual breakdown in the world trading system and resulting deterioration of Europe's economy was a proximate cause of the Second World War, and kept living standards in Europe and the U.S. much lower for much longer than was necessary by prolonging the Great

Depression. It is only in recent years that the scope of international trade has returned to the level seen before the Great War.

The United States is now more closely tied to the rest of the world by trade than at any other time in its history. How the U.S. economy performs relative to the economies of other nations will depend critically on how we promote our commercial interests abroad. Aggressive pursuit of trade liberalization, for which fast track authority is a prerequisite, is the best way to ensure that the U.S. maintains its position as the strongest and most innovative economy in the world.

Tokyo
US-Canada
US-Israel
NAFTA
Uruguay

(1) Mention successes under FTAauth

(2) Mention failures
a) absence of progress in last 3 yrs
b) Kennedy round agreements rejected
→ No

(3) Long history of congress granting permission w/ Ts
NTBs are now the real issue

(4) Tech change
→ qual change e.g automobiles

(5) "relatively less skilled" not clear in the text what this means
ex: e.g. Michael Jordan

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Emphasize our paralysis.

It is evident from all this that now, more than ever, continued engagement with the global economy will require an active effort on the part of the United States, and an extension of fast track authority must be an integral component of this effort. ¶ But a fair and important question to ask at this point is: why is free trade so important? Why should we be concentrating so much effort in pushing for more open foreign markets, and how does freer trade contribute to the Administration's goal of securing higher living standards for all Americans? In short, what are the benefits of free trade for the U.S. economy? I would like to use the remainder of my time to address this question--which, in fact, speaks to my own comparative advantage ~~as~~ an economist.

How many will understand this?
They won't diff from absolute adv.

I would put this after the

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Michael Jordan is probably better at ~~most~~ most things than you and I, yet he spends his time doing what he is best at and pays others to do the rest.

~~Something~~ It might even be the case that one individual (or country, to drop the Robinson Crusoe analogy) is better than anyone else at producing *every* good. Such an argument is often invoked in order to "prove" that the U.S. cannot benefit from trade with a country such as Mexico. But it turns out that the argument in favor of free trade still carries the day. All that is required is for a country to be *relatively* less skilled than another in the production of some good in order for it to benefit from trade. This is, of course, the doctrine of comparative advantage--the fundamental (if perhaps counterintuitive) principle that underlies the theory of international trade. Not clear.

Mi

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Now, this empirical result--that more-open economies grow faster--can be (and has been) criticized on the grounds that it does not truly reflect a causal relationship. Two of my colleagues at Berkeley--one of whom, Jeffrey Frankel, is now also at CEA--recently added to the literature on this topic with a paper that attempts to address this shortcoming. Interestingly, they determined that the effect of openness on economic growth is actually *larger* once the causal effects are clearly isolated.

In an ideal world--the world in which economists live--free trade unambiguously benefits the economy *taken as a whole*. This is true in the real world as well, although the ideal case masks the fact that some will gain from freer trade, but others may lose--even though on net the winners could compensate the losers and still have something left over. In practice, increased globalization will induce reallocations of labor and capital across sectors as the focus of American industry moves to the production of those goods and services which we are relatively good at producing. Because our economy is not frictionless, these adjustments sometimes involve lengthy periods of dislocation until the reallocation of labor and capital across industries is complete. Policymakers advocating freer trade must be aware of this fact, and the Clinton Administration has realized from the beginning that it is the government's duty to minimize the impact of this dislocation by speeding up the adjustment process however it can. For example, one of the key provisions of NAFTA involved monitoring those industries that were in danger of being adversely affected by the free trade agreement, and the Administration committed itself early on to providing for dislocated workers through retraining programs. And, more generally, the Administration's commitment to investing in people through education and training serves as a strong complement to its policy of trade liberalization: since freer trade tends to benefit skilled workers most, the United States enjoys greater benefits from trade to the extent that more of its workers are highly skilled. In the end, though, those who would point to the short-term adverse effects of trade liberalization should not lose sight of an important point: Trade liberalization might adversely affect a small fraction of American workers in their role as producers, but it benefits all workers in their role as consumers.

I have outlined some compelling theoretical arguments and suggestive empirical results that together indicate that freer trade benefits an economy in a profound way. I would also like to suggest a further way in which the economy might benefit from increased globalization, one which has recently been on our minds more and more at CEA. This involves the effect of globalization on the NAIRU, or natural rate of unemployment. Recently, economists have seen some pretty strong evidence that the NAIRU has fallen over the past few years, implying that the unemployment rate can reach a lower level than previously thought without leading to a buildup in wage and price pressures and an eventual increase in inflation. The reasons for the decline in the NAIRU are not well understood--economists are only just coming to a consensus that it has in fact declined--but it seems plausible that the increasing competitiveness of labor and product markets that trade liberalization brings has been an important factor in restraining nominal wage pressures, lowering producers' markups, and keeping the cost of raw materials down in the face of higher levels of domestic production. The result of a decline in the NAIRU is a sustainable, *long-run* increase in the level of GDP--which is another way of describing the static benefits of free trade.

Enhance struct efficiency - more resources to work
more flexibility
- faster prod growth.
- better qual goods.

Trade deficit

rel'tship w/ other countries.

In closing, I would note in passing that I have said nothing of the benefits of trade that arise simply from the fact that it links the economic interests of nations more closely. John Maynard Keynes once argued that the greatest tragedy visited upon Europe by the First World War was the disruption of the system of international trade that was a hallmark of the European economy before 1914. The eventual breakdown in the world trading system and resulting deterioration of Europe's economy was a proximate cause of the Second World War, and kept living standards in Europe and the U.S. much lower for much longer than was necessary by prolonging the Great Depression. It is only in recent years that the scope of international trade has returned to the level seen before the Great War.

The United States is now more closely tied to the rest of the world by trade than at any other time in its history. How the U.S. economy performs relative to the economies of other nations will depend critically on how we promote our commercial interests abroad. Aggressive pursuit of trade liberalization, for which fast track authority is a prerequisite, is the best way to ensure that the U.S. maintains its position as the strongest and most innovative economy in the world.

Michele Jolin 09/09/97 03:59:23 PM

Record Type: Record

To: Jon D. Haveman/CEA/EOP

cc:
Subject: Notes on Janet's speech

---------------------- Forwarded by Michele Jolin/CEA/EOP on 09/09/97 03:58 PM ---------------------------

From: Jeremy B. Rudd on 09/08/97 11:47:47 AM

Record Type: Record

To: Michele Jolin/CEA/EOP

cc: Jon D. Haveman/CEA/EOP
Subject: Notes on Janet's speech

These are Jon's comments on the fast track speech. I'm not sure item five is necessary, because Janet's audience will be economists (NABE folks) who know what comparative advantage is. If she does want something, I can work it up quickly. I know nothing about items one, two, and three, so Jon would have to work on those. As for item six, I don't believe that we can argue that more resources can be put to work when we are at full employment (as we are now), but I might be misunderstanding the comment. The other points under item six are good ones (as is item four), and some summary text is a good idea assuming the speech isn't too long already.

Let me know what you want me to redraft, if anything. Right now, Janet and you have copies of both speeches (I e-mailed them to you on Sunday).

- Jeremy

---------------------- Forwarded by Jeremy B. Rudd/CEA/EOP on 09/08/97 11:26 AM ---------------------------

Jon D. Haveman 09/08/97 10:25:57 AM

Record Type: Record

To: Jeremy B. Rudd/CEA/EOP

cc: Janet L. Yellen/CEA/EOP
Subject: Notes on Janet's speech

Jeremy,

I have a couple of comments in re Janet's speech. Overall, it works pretty well. I'm wondering if, due to the timing, she doesn't want to emphasize fast track a little bit. In particular,

1) Mention the record of sucess under fast track authority

Tokyo Round, US-Israel, US-Canada, NAFTA, Uruguay Round

2) Failures w/o fast track

  a) failure to rativy 2 important nontariff elements of the Kennedy round

    ASP (American Selling Price which raised effective duties on goods)

    Antidumping codes

  b) the last 3 years

  c) I'm pretty sure congress invented fast track as a response to (2a)

3) Maybe it's worth noting that there is a long history of congress granting the executive branch authority to negotiate tariff reductions (beginning in the 1930s) and that the current problems revolve more around NTBs than tariffs.

4) On page 7, where you talk about tech change, perhaps talking about quality change as well would be good. Maybe an example like the fact that US automobiles of the early 70s had more in common with the model T than they do to automobiles of today. That is, foreign competition has brought about competition in the US automobile industry like never before existed.

5) The discussion of comparative advantage is a little unclear. I'm not sure that the average person would know relative to what "relatively less skilled" means. Perhaps an example....maybe Michael Jordan. He is arguably better than most of us at most things, but he only does a few and pays for the rest. Something like that.

6) on pg 10, right before the para "IN closing..." Perhaps a moment to review all of the things that trade does for an economy is worthwhile:

puts more resources to work
utilizes resources more efficiently
faster productivity growth
higher quality goods
lower prices

Michele Jolin 09/09/97 04:00:03 PM

Record Type: Record

To: Jon D. Haveman/CEA/EOP

cc:

Subject: Drafts of your speeches

Most recent version of Janet's fast-track speech.

mj

---------------------- Forwarded by Michele Jolin/CEA/EOP on 09/09/97 03:59 PM ---------------------------

From: Jeremy B. Rudd on 09/07/97 09:00:32 PM

Record Type: Record

To: Janet L. Yellen/CEA/EOP

cc: Michele Jolin/CEA/EOP

Subject: Drafts of your speeches

TRADE1.DOC OUTLOOK1.DO(

Attached are the drafts of your speeches on fast track and the economic outlook. I e-mailed a slightly earlier version of the fast track speech to Jon Haveman, per your request.

I revised the outlook speech (outlook1.doc) this weekend. It is essentially an updated version of one of your old speeches, though I added sections on the budget agreement and fast track. It needs a better title.

The fast track speech (trade1.doc) incorporates Jeff's and Michele's edits, with two exceptions:

1. It was suggested that "primary" be added to the first sentence on the fourth page, so that it would read "I would begin by first saying that one of the primary benefits of free trade is not...an improved current account..." To me, this suggests that trade liberalization improves the current account balance; the point of this section of the speech, however, is to counter the notion that trade is beneficial only inasmuch as net exports are positive (and also to emphasize that the current account is a macroeconomic phenomenon related to saving and investment flows). Perhaps I misunderstood the comment, though...

2. It was felt that the paragraph describing Jeff's paper with David Romer is confusing, and a suggestion was made that it be omitted. What do you think?

The principal source for the description of pending policies found in the fast track speech is the set of talking points I received from the NSC (you also have a copy of these talking points). Per your request, I expanded the section that describes planned future trade policy initiatives; the source for this is a set of talking points given to cabinet members for their consultations with Congress (Michele gave a copy to me). I assume that all of the initiatives described in the speech may be discussed in public...?

By the way, the new-trade/new-growth theory mavens that I had in mind as being future candidates for a Nobel prize are Paul Romer and Paul Krugman. Perhaps Gene Grossman is a dark horse candidate as well, although he has a moustache, and I believe that virtually all recipients of the Nobel in Economics have been clean-shaven. Then again, Krugman has a beard, so perhaps a regime change is in the offing.