

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:14-JUL-1999 10:25:36.00

SUBJECT: 1999-07-13 VP Statement on Steel Agreement with Russia

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

No doubt you've seen this, but just in case....

----- Forwarded by Victoria A. Greenfield/CEA/EOP on
07/14/99 10:24 AM -----

Yu-Chin Chen

07/14/99 10:22:55 AM

Record Type: Record

To: Victoria A. Greenfield/CEA/EOP@EOP

cc:

Subject: 1999-07-13 VP Statement on Steel Agreement with Russia

----- Forwarded by Yu-Chin Chen/CEA/EOP on 07/14/99 10:22
AM -----

The White House <Publications-Admin@Pub.Pub.WhiteHouse.Gov>

07/14/99 10:16:00 AM

Record Type: Record

To: Public-Distribution@[198.137.240.100]

cc:

Subject: 1999-07-13 VP Statement on Steel Agreement with Russia

You've probably seen this already, but just in case.

THE WHITE HOUSE

Office of the Vice President

For Immediate Release

July 13, 1999

STATEMENT BY THE VICE PRESIDENT

I am pleased to announce some good news for America's steelworkers, their families, and the U.S. steel industry: we have reached an agreement with Russia to protect against surges of Russian steel imports into the United States. Put simply, this agreement will protect the interests of our steelworkers and steel industry, without closing U.S. markets.

Promoting free trade is important, but so is protecting the livelihoods of Americans whose hard work has made us the world's greatest economic power.

And that is why late yesterday night, we concluded a comprehensive agreement with Russia that will provide predictability in the U.S. steel market and guarantee a low level of Russian imports -- below the levels in place before the surge of Russia steel into our markets. This agreement will prevent import surges from Russia and make it easier to enforce reduced import levels.

Russian Prime Minister Stepashin called me yesterday afternoon -- about ten hours before the deadline -- to review the issues facing our negotiators. I clearly laid out for the Prime Minister the fundamental U.S. requirements necessary to reach an agreement.

The talks continued in Paris without agreement, and I heard late last night from our negotiators about an opportunity for a breakthrough. I immediately called Prime Minister Stepashin an hour before our deadline of midnight, and urged him to instruct his negotiators to come to closure. In the end, I am proud to say we reached an agreement that is in the best interests of both our nations.

I want to thank representatives of the union and the steel industry for working so diligently to reach this agreement. I want to thank Congressional leaders for their forceful advocacy, and I salute our Department of Commerce and Secretary Daley for their ongoing leadership on this issue.

Today, thanks to all their efforts, we open a new, more predictable, and mutually prosperous era in steel trade for the United States -- one in which our workers, their families, and our industry have a fair opportunity to compete and to prosper in the global economy.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:14-JUL-1999 11:00:19.00

SUBJECT: Morning Meeting for 07/14/99

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/14/99
11:00 AM -----

Medley_Global_Advisors@medleyadvisors.com
07/14/99 09:34:53 AM

Record Type: Record

To:
cc:
Subject: Morning Meeting for 07/14/99

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United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: mmjul14.pdf)

- mmjul14.pdf

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D51]ARMS285443795.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

Morning Meeting

July 14, 1999

G-7

EU: ECB reaffirms growth expectations

UK: A delay is not a postponement

Emerging Markets

Argentina: Duhalde's political desperation

G-7

EUROPE

COME GROW WITH US

Among the best kept public secrets about the ECB is that its monthly report is a trove of real information and a serious indicator of medium-term policy thinking by the ECB Directorate. This is particularly true of the economics department's editorial which provides the best regularly scheduled view of the state of thinking in the ECB. **The July report validated market expectations of a rebound in European growth, and even gave the first faint signal that it may be worth reassessing inflation expectations in the euro area in the future.** This is the first such hint since the ECB began.

The smooth decline in the euro since the beginning of the year has been a nice reward for people who were willing to trade the market as unreconstructed euro-skeptics. On top of a background story of weakening growth, the internal struggles in left-leaning governments have provided a steady diet of inflammatory headlines to suggest that the whole experiment is just as likely to come crashing down sometime in the next couple of weeks as it is to struggle on until the problems are ironed out.

The only problem is that **the stories have gotten weaker as the year has gone on.** Whereas in January, Oskar Lafontaine literally was lobbying for political control of the ECB and a disregard for inflation monitoring, now the euro sells off on completely spurious rumors on the incipient breakup of the German coalition or that the head of the European Commission wants to dismantle EMU by kicking out his own country. Today's offering is a wire report under the headline "ECB slams EMU-11 budgets." The story is that a Swedish newspaper reports a "confidential" (oooh!) ECB study that in the event of an economic depression (bearing in mind that growth is positive and rising and the Amsterdam treaty specifically suspends the deficit limits in the event of a depression) many countries would not meet the 3% deficit goal. They furthermore expose the shocking insight that many countries employed temporary measures to meet the original criteria! For shame! We vow to get to the bottom of this revelation!

UNITED KINGDOM

DON'T BLAME ME, IT'S THOSE BLOODY ORANGISTS!

Nothing like a little Protestant tribalism to waylay the best made plans. Advisors close to Prime Minister Tony Blair insist the second delay to the much touted cross-party "Britain in Europe" campaign was driven by a combination of scheduling conflicts among participating pro-Europe Tory heavyweights and Blair's very crowded political agenda, dominated by the intensive negotiations over the last two weeks to save the Northern Ireland accord. The height of the Orange Order's marching season provided a nice backdrop to the announced delay. After all, who has time to deal with the future of Europe and Britain's place in it when you have to take time

out to celebrate the Protestant victory over the Catholics 309 years ago?

In addition, Blair is currently working on an imminent cabinet reshuffle, due around July 21. The reshuffle is expected to be centered around the replacement of Mo Mowlam as Northern Ireland secretary and stripping down some of the responsibilities of John Prescott, the deputy prime minister and transport secretary, who has been in for heavy political criticism due to London's transportation congestion.

The demands of Ireland and the cabinet reshuffle made the mid-July launch next to impossible. The campaign will now be officially launched in mid-September and will include both Blair and pro-Europe Tory heavyweights Michael Heseltine and Kenneth Clarke. Geoffrey Howe, who is Tory co-chairman of the campaign, is also expected to put in an appearance. The autumn will also make for a better launch because both the UK and European economies are expected to be rebounding by then.

Behind the claims of schedules and higher political priorities, there has been an ongoing tension between Number Ten and the pro-Europe Conservatives. Both Heseltine and Clarke were reluctant to be too far out ahead in a pro-Europe campaign without Blair for fear of being accused of pulling what's left of the Tory Party apart. There was lingering bad blood after the European elections, which has since been resolved: **Blair, according to senior pro-Europe Tories, has promised to make a strong pro-European statement in the next week or two to signal Number Ten's commitment to the campaign.**

EMERGING MARKETS

ARGENTINA

POLITICAL ANSWERS TO POLITICAL PROBLEMS

Yesterday's 5% bounce was surely welcome by Finance Minister Roque Fernandez and his beleaguered team. But Duhalde's non-denial denial about his papal musings is just a preview of what's to come: reckless campaign pronouncements and continuous flip-flopping. We have learned that, despite the harsh market reaction to the debt issue, Duhalde's aides feel justified in playing the debt card now. **Duhalde's private polls indicate that he could lose the election by more than 10 points, a situation that would obviate the need for a run-off election among the top two candidates. That would prevent him from playing the Cavallo card at that time, which is considered Duhalde's insurance.** Therefore the "scorched [financial] earth approach," makes more sense than might appear, at least to the Duhalde camp.

The Ministry of Finance has decided to engage in the political give and take in order to "communicate reality more effectively." **As part of this approach, Fernandez spoke with Machinea (Alianza) and Remes Lenicov (Duhaldismo) to try reach a gentleman's agreement on a market friendly stump speech for the candidates.**

The IMF also tried to play the perception game yesterday. However, the IMF simply reiterated the position previously stated by Camdessus that the Fund was willing to help if it was deemed necessary and appropriate. In private, Fund officials emphasized the need to deal with the crisis at the political level. President Menem still supports the idea of requesting additional aid from the IMF. However, **Fernandez argues in favor of a "wait and see" approach to conserve the few financial bullets he has. If asking for additional IMF money is the way to go, this should be done as close to October as possible,** and definitely not now. This speaks volumes as to whether things will get better or worse over the next few weeks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 13:44:40.00

SUBJECT: Revised- Kathryn Shaw Schedule-if this is a problem- let me know asap. thanks

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

fyi.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/15/99

01:44 PM -----

Peter A. Weissman

07/15/99 01:20:42 PM

Record Type: Record

To: Carolyn T. Wu/WHO/EOP@EOP, Alice H. Williams/CEA/EOP@EOP, Lisa D. Branch/CEA/EOP@EOP, Audrey Choi/CEA/EOP@EOP

cc:

Subject: Revised- Kathryn Shaw Schedule-if this is a problem- let me know asap. thanks

1:30-2:00 pm	Secretary Summers	Treasury
Room 3330		
2:00-2:30 pm	Karen Tramontano	West Wing/First Floor
2:30-3:00 pm	Janet Yellen	OEOB Room 314
3:45-4:15 pm	Gene Sperling	West
Wing/Second Floor		
5:00-5:30 pm	Robert Lawrence	OEOB Room 314

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 13:23:07.00

SUBJECT: NEC Deputy Meetings Next Week

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
7/19, Mon, 5:30pm, re WTO Environment, Rm. 211

7/20, Tues, re WTO, Rm. 180

7/21, Wed, 5:30pm, re GMOs, Rm. 180

7/22, Thurs, 4:30pm, re WTO, Rm. 180

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 11:45:35.00

SUBJECT: Speech To Grains Council

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

This is an outline of the Speech I plan to give on Monday. I would appreciate comments and particularly suggestions how this can be more relevant to an ag audience.===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D91]ARMS23352589D.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Benefits and Concerns about Open Trade.

RZL.

Draft of Comments for a Presentation to the Grains Council July 18th.

Our recent economic experience is surely evidence of the compatibility of strong growth, improved competitiveness and an open economy. We are enjoying the longest peacetime expansion, which has created over 18 million jobs. We have the lowest unemployment rates for almost three decades and the lowest core inflation rates since the mid 60s. And in the past three years we have seen surging productivity growth and rising real wages.

US firms are again the world's most competitive in most of the high tech sectors of the future (aerospace, software, computers, finance, semiconductors, entertainment, and pharmaceuticals). US firms make up 8 of the top ten and 21 of the top 25 firms in Businessweek's Global 1000.

Our systems of higher education, research and innovation are the envy of the world. With the surge in productivity growth over the past three years, there is reason to believe that finally we are reaping the benefits of the revolution in information technology. Many now seek to learn the secrets of our success. At the CEA we constantly receive visitors from Europe who wonder at the flexibility of our labor markets and visitors from Asia who admire our transparent and resilient financial system.

In addition to its policies of fiscal prudence and investing in people and education, **a key pillar in this administration's strategy has been its emphasis on opening markets abroad and keeping our market open at home.** Agreements such as Uruguay Round, NAFTA, and sectoral free trade in financial services, telecommunications and information technology are just the most prominent of the numerous agreements which have been adopted since the Clinton Administration came into office

At the same time there is no question **that we are today more open to international trade than we have been, certainly at any time in this century and probably before that.** Today trade is equal to 24 percent of GDP which means that roughly one in five purchases or sales made by Americans involve a foreigner. In 1998 our agricultural exports valued at 50.6 billion were equal to 26 percent of all cash receipts of US farmers.

.Clearly, a stellar performance and an open economy are quite compatible.

Indeed, we should expect this because international trade yields numerous benefits,

which include:

Efficiency. Trade allows us to reap efficiency gains by specializing in producing the products we can make relatively well and buying products from the rest of the world, which they make more cheaply. If we only produced the corn we consumed, our output would be cut by XX percent.

As we expand our exports, Americans obtain more jobs with higher incomes in our most productive and competitive firms and farms. Export firms have been found to pay wage premiums on the order of fifteen percent.

Wages are also higher, because we have access to cheaper imports. The ability to buy cheaper foreign products is an important complement to faster productivity growth in raising living standards and boosting real wages. Today, a dollar buys 13 percent more imported goods and services than it did 1995. Over the same period, nominal average hourly earnings have risen from \$11.43 to \$13.04. This implies that by working an hour, the typical production worker can now buy 29 percent more imported goods and services than she could in 1995. Imports have helped us deliver on our promise of high wage jobs.

Variety. Second, trade enhances consumer choice, by making available products we do not produce at home or are more precisely matched to consumer tastes. Think of what our store shelves would look like without imported products. In some cases, imports are the only way we can obtain goods and key inputs we do not or cannot produce at home.

Competition. Third, trade is an important source of competition in our economy. Free trade complements anti-trust in constraining domestic monopolies. This leads to lower prices for consumers and greater productive efficiency.

Innovation Trade stimulates innovation and technological improvements. We need only recall the major improvements in our domestic steel and automobile industries in response to foreign challenges. Studies of both Japan and the United States find a positive relationship between industrial total factor productivity growth and import growth. By giving our exporters access to global markets, it encourages more spending on R&D. It is perhaps no surprise that the manufacturing and agricultural sectors of our economy most exposed to trade, are the sectors in which productivity growth has been the fastest.

Competitiveness. To compete effectively in world markets, our producers need access to the best components and equipment at world prices. Most complex products today require the combination of both high and low skill activities. By purchasing inputs abroad our firms can leverage their high-skill activities. An example: today's personal computers often come equipped with US software and micro-processors but many other components are made in Asia and elsewhere. Erecting barriers to imports has an unseen boomerang effect on exports. By

increasing the costs of inputs that producers use to generate goods and services, protection damages the position of US exporters. It is no surprise that major exporters like Caterpillar are so concerned about higher steel prices, or producers of computers like IBM oppose protection on flat-panel display screens.

Spare Capacity. It is also apparent that by being part of an international economy, and drawing on spare capacity in the rest of the world, our economy has been able to enjoy particularly rapid employment growth, without fear of inflation. This has allowed the Federal reserve more leeway to keep interest rates low and reduce unemployment. In this way, imports have helped boost employment.

Surprising Resistance. Given the competitiveness of our economy, given the high levels of employment, and given the openness, which implies that when we sign trade agreements others reduce their barriers by far more than we reduce ours, it is quite surprising that the Congress has shown considerable reluctance to provide the President with Trade Negotiating Authority. We see considerable opposition to trade agreements both from left and from the right.

What explains this concern? I'd like to distinguish and discuss two sets of concerns. The first relates to the economic impacts of trade, the second to issues of governance and the rules for trade. I believe it is important to deal with these concerns. In some cases, they are exaggerated or misplaced. But there are also cases where the concerns are legitimate, and this administration has pursued policies to deal with them. Let me deal with each set in turn.

Low wage competition. One foolhardy claim is that we simply cannot compete with low wage countries. This folly was best captured by Ross Perot's claims that free trade with Mexico would generate a giant sucking sound as jobs migrated to Mexico. The truth is we certainly can compete. The reason is that its costs, rather than wages which matter. And our costs can be lower as long as we're sufficiently productive to what matters is costs, not simply the level of wages. Wage rates in Mexico may be a seventh of those in the US but it turns out so is output per worker. This means that the way we compete is through higher productivity not through lower wages.

Deficits = job loss. A second foolhardy view is the naive statement that trade deficits automatically cost jobs. Look at our economy today and two things are striking first, we have a very large deficit and second, we are closer to full employment than we have been for three decades.

But there are more sophisticated views, which are less easily dismissed:

Trade, as with other changes, may create losers as well as winners.

Dislocation. In the short run, as we've seen recently in sectors such as steel, oil, textiles, and mining and agriculture, increased imports or reduced exports can cause job loss.

Inequality. A second concern is that trade is the dominant reason why we have seen growing wage inequality. This could certainly be true in theory. However, most economists who have studied this question looking at the period up through the mid 90s when we did see the premiums earned by skilled workers rise, assign the major role to technology rather than trade—and many suggest about ten or fifteen percent of the skill premium increase is attributable to trade.

But more recent experience is very interesting. Since 1995 we have seen particularly rapid gains for those at the bottom of the income distribution. Indeed according to the economic policy institute those in the lowest quintile have had real wage increases of 10.3 percent – almost those at the top. And this despite the problems which have occurred in world markets as a result of the Asian crisis. Nonetheless we do need policies to assist those who are displaced and to ensure that work does pay.

I would emphasize, however, that trade protection is not the answer to either of these concerns. Protection inevitably raises costs to consumers that far outweigh the gains to producers. While there may be a limited role in cushioning some of the change to give industries an opportunity to adjust – as the President has recently provided in the case of the lamb industry -- preventing change would permanently deprive us of the benefits which I have already described. The key response lies in an economy, which is sufficiently flexible to meet the challenge of reaping those benefits.

1. Maintain domestic growth. One aspect relates to keeping the economy as close to full employment as is compatible with low inflation. It is interesting for example to look at what has happened to dislocated workers as the economy has moved closer to full employment.

Every two years, the Bureau of Labor statistics conducts a survey of workers who were displaced from jobs they had held for three years or more. It is striking to contrast the experience when unemployment was high in 91/3 and when it was low in 95/95.¹

First, the number of displaced workers declined by about 25 percent.

Second, by the time the survey was taken only about half those displaced had jobs in the early period, versus about 64 percent in the latter.

Third, In 91/93 reemployed workers experienced a decline of 16 percent in their wages, between 95 and 97, the decline was just two percent.

¹ Displaced workers are defined as persons aged 20 years and older who lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished.

This does not mean losing your job is not painful. But it does mean once you find a job you can do much better the stronger is the overall economy.

2.A second key principle of course is encouraging foreign growth. The US has been the principle engine of global economic growth but we've had financial crises in many parts of the world. Foreign growth is good for us. It provides us with markets for our exports.

3.A third policy response relates to government assistance in providing reemployment services.

The administration has developed numerous policies to assist search and training. A major new mechanism are the federal government job and talent banks servicing millions of workers today. America's Job Bank posts roughly 700,000 jobs on any given day, its talent bank has a total of 112,000 resumes in July 98. In 1998 the President signed the Workforce Investment Act with Individual Training Accounts and lifelong earning tax credits.

4.For the long run the key lies in education and training. Regardless of whether the underlying source is international competition or technological change. The key is education – again policies

5. Finally there is also making sure that work does pay. Here in particular there is a role both for minimum wages set at reasonable levels and for an earned income tax credit. These are all areas in which the administration has taken the lead.

The second set of issues relates more closely to trade policy. There are concerns that an open global trading system will undermine domestic sovereignty and damage health labor the environment.

Here too, I believe there are fundamental misconceptions. By joining international organizations and signing trade agreements the US has not given up our ability to determine our own fate. It's the same as with any contract. It makes sense to sign a contract as long as the benefits outweigh the costs. And indeed if the contract no longer pays, one simply must pay compensation. In exactly the same way, the US derives benefits by participating in agreements in which both other countries and we open their markets.

We benefit from a rules based system and have been actively using it much to our advantage. And if it happens that we are found in breach we have the choice of desisting in our behavior, or providing compensation.

In fact, the real problem we face is how to make sure that the WTO can be more effective in enforcing its rules. Indeed, we have had particular problems recently with Europe, for

example, in the case of Bananas, and in the case of Beef hormones. We have obtained favorable rulings and not obtained compliance from the EU. We hope that in the new trade round to be launched in Seattle, we will be able to make improvements to the system.

A second concern relates to the rules of the trading system. These have shifted heavily from border barriers to concerns about other policies. Some of the most contentious is health, environment and labor. The key in these cases is how to achieve the correct balance, between domestic autonomy on the one hand, and yet the attainment of desirable international norms on the other.

I fear here that ideologies on both sides threaten the trading system. On the one hand, we have those who insist we should only trading with countries that are exactly like us. On the other hand, those who believe there is no role for trade to deal with even the most egregious human rights abuses, and no room to make exceptions even where trade can undermine the environment.

It seems to me that we need to recognize the need for balance in these areas. To think creatively about how those trade-offs can be made. One example of such creativity were the side agreements to the NAFTA in which emphasized enforcement and did not seek to harmonization. Another direction of achieving balance lies in the health area – which has become extremely contentious in our relations with Europe.

Should the Europeans keep out our beef our, or prevent the sale of genetically modified food, even if there are no scientific support for there position. I think not. At the same time, however, as sectetary Glickman has recently suggested, there may be a role for private firms voluntarily to inform consumers about how their products were made.

Some suggest we should simply have free markets without any government regulation. But we have seen that good regulation is an important complement to the market. Indeed only when consumers can have faith in regulation will the market flourish.

So in sum, we do need an intelligent approach to realize the full benefits of trade and this is an approach the Clinton Adminstration has followed. We need supportive macro and adjustment policies to make change in general more achievable. We need international rules and system which enforce basic principles that maintain an open global community but which does not tread too a strongly on the legitimate means of expression for national diversity.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 09:37:29.00

SUBJECT: Lunch w/David Wilcox

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

David Wilcox will meet you in your office at 12:00 Noon.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 15:33:18.00

SUBJECT: Speech

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D71]ARMS25162889X.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

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Innovation Trade stimulates innovation and technological improvements. We need only recall the major improvements in our domestic steel and automobile industries in response to foreign challenges. Studies of both Japan and the United States find a positive relationship between industrial total factor productivity growth and import growth. By giving our exporters access to global markets, it encourages more spending on R&D. It is perhaps no surprise that the manufacturing and agricultural sectors of our economy most exposed to trade, are the sectors in which productivity growth has been the fastest.

Competitiveness. To compete effectively in world markets, our producers need access to the best components and equipment at world prices. Most complex products today require the combination of both high and low skill activities. By purchasing inputs abroad our firms can leverage their high-skill activities. An example: today's personal computers often come equipped with US software and micro-processors but many other components are made in Asia and elsewhere. Erecting barriers to imports has an unseen boomerang effect on exports. By

increasing the costs of inputs that producers use to generate goods and services, protection damages the position of US exporters. It is no surprise that major exporters like Caterpillar are so concerned about higher steel prices, or producers of computers like IBM oppose protection on flat-panel display screens.

Spare Capacity. It is also apparent that by being part of an international economy, and drawing on spare capacity in the rest of the world, our economy has been able to enjoy particularly rapid employment growth, without fear of inflation. This has allowed the Federal reserve more leeway to keep interest rates low and reduce unemployment. In this way, imports have helped boost employment.

Surprising Resistance. Given the competitiveness of our economy, given the high levels of employment, and given the openness, which implies that when we sign trade agreements others reduce their barriers by far more than we reduce ours, it is quite surprising that the Congress has shown considerable reluctance to provide the President with Trade Negotiating Authority. We see considerable opposition to trade agreements both from left and from the right.

What explains this concern? I'd like to distinguish and discuss two sets of concerns. The first relates to the economic impacts of trade, the second to issues of governance and the rules for trade. I believe it is important to deal with these concerns. In some cases, they are exaggerated or misplaced. But there are also cases where the concerns are legitimate, and this administration has pursued policies to deal with them. Let me deal with each set in turn.

Low wage competition. One foolhardy claim is that we simply cannot compete with low wage countries. This folly was best captured by Ross Perot's claims that free trade with Mexico would generate a giant sucking sound as jobs migrated to Mexico. The truth is we certainly can compete. The reason is that its costs, rather than wages which matter. And our costs can be lower as long as we're sufficiently productive to what matters is costs, not simply the level of wages. Wage rates in Mexico may be a seventh of those in the US but it turns out so is output per worker. This means that the way we compete is through higher productivity not through lower wages.

Deficits = job loss. A second foolhardy view is the naive statement that trade deficits automatically cost jobs. Look at our economy today and two things are striking first, we have a very large deficit and second, we are closer to full employment than we have been for three decades.

But there are more sophisticated views, which are less easily dismissed:

Trade, as with other changes, may create losers as well as winners.

Dislocation. In the short run, as we've seen recently in sectors such as steel, oil, textiles, and mining and agriculture, increased imports or reduced exports can cause job loss.

Inequality. A second concern is that trade is the dominant reason why we have seen growing wage inequality. This could certainly be true in theory. However, most economists who have studied this question looking at the period up through the mid 90s when we did see the premiums earned by skilled workers rise, assign the major role to technology rather than trade—and many suggest about ten or fifteen percent of the skill premium increase is attributable to trade.

But more recent experience is very interesting. Since 1995 we have seen particularly rapid gains for those at the bottom of the income distribution. Indeed according to the economic policy institute those in the lowest quintile have had real wage increases of 10.3 percent – almost those at the top. And this despite the problems which have occurred in world markets as a result of the Asian crisis. Nonetheless we do need policies to assist those who are displaced and to ensure that work does pay.

I would emphasize, however, that trade protection is not the answer to either of these concerns. Protection inevitably raises costs to consumers that far outweigh the gains to producers. While there may be a limited role in cushioning some of the change to give industries an opportunity to adjust – as the President has recently provided in the case of the lamb industry -- preventing change would permanently deprive us of the benefits which I have already described. The key response lies in an economy, which is sufficiently flexible to meet the challenge of reaping those benefits.

1. Maintain domestic growth. One aspect relates to keeping the economy as close to full employment as is compatible with low inflation. It is interesting for example to look at what has happened to dislocated workers as the economy has moved closer to full employment.

Every two years, the Bureau of Labor statistics conducts a survey of workers who were displaced from jobs they had held for three years or more. It is striking to contrast the experience when unemployment was high in 91/3 and when it was low in 95/95.¹

First, the number of displaced workers declined by about 25 percent.

Second, by the time the survey was taken only about half those displaced had jobs in the early period, versus about 64 percent in the latter.

Third, In 91/93 reemployed workers experienced a decline of 16 percent in their wages, between 95 and 97, the decline was just two percent.

¹ Displaced workers are defined as persons aged 20 years and older who lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished.

This does not mean losing your job is not painful. But it does mean once you find a job you can do much better the stronger is the overall economy.

2.A second key principle of course is encouraging foreign growth. The US has been the principle engine of global economic growth but we've had financial crises in many parts of the world. Foreign growth is good for us. It provides us with markets for our exports.

3.A third policy response relates to government assistance in providing reemployment services.

The administration has developed numerous policies to assist search and training. A major new mechanism are the federal government job and talent banks servicing millions of workers today. America's Job Bank posts roughly 700,000 jobs on any given day, its talent bank has a total of 112,000 resumes in July 98. In 1998 the President signed the Workforce Investment Act with Individual Training Accounts and lifelong earning tax credits.

4.For the long run the key lies in education and training. Regardless of whether the underlying source is international competition or technological change. The key is education – again policies

5. Finally there is also making sure that work does pay. Here in particular there is a role both for minimum wages set at reasonable levels and for an earned income tax credit. These are all areas in which the administration has taken the lead.

The second set of issues relates more closely to trade policy. There are concerns that an open global trading system will undermine domestic sovereignty and damage health labor the environment.

Here too, I believe there are fundamental misconceptions. By joining international organizations and signing trade agreements the US has not given up our ability to determine our own fate. It's the same as with any contract. It makes sense to sign a contract as long as the benefits outweigh the costs. And indeed if the contract no longer pays, one simply must pay compensation. In exactly the same way, the US derives benefits by participating in agreements in which both other countries and we open their markets.

We benefit from a rules based system and have been actively using it much to our advantage. And if it happens that we are found in breach we have the choice of desisting in our behavior, or providing compensation.

In fact, the real problem we face is how to make sure that the WTO can be more effective in enforcing its rules. Indeed, we have had particular problems recently with Europe, for

example, in the case of Bananas, and in the case of Beef hormones. We have obtained favorable rulings and not obtained compliance from the EU. We hope that in the new trade round to be launched in Seattle, we will be able to make improvements to the system.

A second concern relates to the rules of the trading system. These have shifted heavily from border barriers to concerns about other policies. Some of the most contentious is health, environment and labor. The key in these cases is how to achieve the correct balance, between domestic autonomy on the one hand, and yet the attainment of desirable international norms on the other.

I fear here that ideologies on both sides threaten the trading system. On the one hand, we have those who insist we should only trading with countries that are exactly like us. On the other hand, those who believe there is no role for trade to deal with even the most egregious human rights abuses, and no room to make exceptions even where trade can undermine the environment.

It seems to me that we need to recognize the need for balance in these areas. To think creatively about how those trade-offs can be made. One example of such creativity were the side agreements to the NAFTA in which emphasized enforcement and did not seek to harmonization. Another direction of achieving balance lies in the health area – which has become extremely contentious in our relations with Europe.

Should the Europeans keep out our beef our, or prevent the sale of genetically modified food, even if there are no scientific support for there position. I think not. At the same time, however, as sectetary Glickman has recently suggested, there may be a role for private firms voluntarily to inform consumers about how their products were made.

Some suggest we should simply have free markets without any government regulation. But we have seen that good regulation is an important complement to the market. Indeed only when consumers can have faith in regulation will the market flourish.

So in sum, we do need an intelligent approach to realize the full benefits of trade and this is an approach the Clinton Adminstration has followed. We need supportive macro and adjustment policies to make change in general more achievable. We need international rules and system which enforce basic principles that maintain an open global community but which does not tread too a strongly on the legitimate means of expression for national diversity.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 13:52:19.00

SUBJECT: WTO Deputies Meetings

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
FYI.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/15/99
01:51 PM -----

Sharon H. Yuan
07/15/99 01:48:38 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Peter A. Weissman/OPD/EOP@EOP, Melissa G. Green/OPD/EOP@EOP
Subject: WTO Deputies Meetings

Below is a list of deputies meeting on WTO scheduled for next week. All of the meetings will be principals plus one ONLY. Please let me know whether or not your principal will be able to attend.

Monday, 5:30 pm (Rm 211)	DC on WTO- Environment
Tuesday, 5:00 pm (Rm 180)	DC on WTO
Thursday, 4:30 pm (Rm 180)	DC on WTO
Friday, 3:00 pm (Rm 180)	DC on WTO

Message Sent

To: _____
Lisa D. Branch/CEA/EOP@EOP
donna_jackson@ita.doc.gov
suzette_right@ita.doc.gov @ inet

norris-ronetta@dol.gov
alexandrowiczac@state.gov
lenora.cully@do.treas.gov
andrew.baukol@do.treas.gov
OBERDORFER_AMY@ustr.gov
Andrew F. Schneider/OVP@OVP
Carolyn T. Wu/WHO/EOP@EOP
Rebecca L. Walldorff/WHO/EOP@EOP
kblythe@usda.gov
D Holly Hammonds/OPD/EOP@EOP
Matthew P. Schaefer/NSC/EOP@EOP
Richard M. Samans/OPD/EOP@EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 12:11:10.00

SUBJECT: WTO Report on the US.

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Todays FT page 5 reports that the WTO has just issued a report praising the US for by and large resisting protectionst pressures. It is generally a glowing report on US trade policies and practrices. Maybe you could get a press release from the WTO. It think informing the President would be very timely.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 12:05:42.00

SUBJECT: Re: Reunion

TO: jalewis@hardfarm.freemove.co.uk (jalewis@hardfarm.freemove.co.uk [UNKNOWN])
READ:UNKNOWN

TEXT:

Basically I am pretty free for any weekend in October or November.

Actually as we get towards December my workload will build up since we have a large end of year report to write.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 15:31:52.00

SUBJECT: Phone Message from Peter Goesslin

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: Peter Goesslin Company: Phone: 861-9265 FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1999 19:29:19.00

SUBJECT: Out of the office Friday and Monday

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Reminder: I'm not here Friday and most of Monday. I'll be back Monday late afternoon (probably by 5 pm) to do the trade release. Ryan has promised to help; Yu-Chin, it might be useful if you can be around on Monday evening to learn how to do the trade release memo as well.

The files I inherited on the trade release are in the middle of my desk, if necessary.

John

P.S. If necessary, I'm staying at the Royal Sonesta in Cambridge, at 617--806-4200.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 11:29:16.00

SUBJECT: Re: Ag Policies.

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

Yes please.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 12:25:37.00

SUBJECT: 12:45 lunch / 5pm toast

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [UNKNOWN])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Aaron D. Tracy (CN=Aaron D. Tracy/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

Please join us for two celebratory events today
to honor our esteemed

colleges

Raymond and Elise
whose last day at the CEA is today

12:45 lunch at TGI Fridays
(meet at the

elevator then)

5pm champaign toast and happy hour
on the porch.

Pork and lamb will be

served.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 17:28:34.00

SUBJECT: Monday Speech

TO: lawdorf@erols.com (lawdorf@erols.com @ inet [UNKNOWN])

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D17]ARMS20907200B.236 to ASCII,

The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Benefits and Concerns about Open Trade.

RZL.

Draft of Comments for a Presentation to the Grains Council July 18th.

Opponents of free trade seem to be everywhere. Last week, the front page of the wall street journal ran a story about the groups who are planning to come to Seattle in November to oppose further globalization efforts. This phenomenon can also be seen in our congress which has in recent years, refused to give the President so-called Fast Track Negotiating authority. Ralph Nader, Ross Perot, Pat Buchanan are a few of the most vocal of what a recent book of which I was a coauthor dubbed globaphobia.

Yet our recent economic experience is surely evidence of the compatibility of strong growth, improved competitiveness and an open economy. We are enjoying the longest peacetime expansion, which has created over 18 million jobs. We have the lowest unemployment rates for almost three decades and the lowest core inflation rates since the mid 60s. And in the past three years we have seen surging productivity growth and rising real wages.

US firms are again the world's most competitive in most of the high tech sectors of the future (aerospace, software, computers, finance, semiconductors, entertainment, and pharmaceuticals). US firms make up 8 of the top ten and 21 of the top 25 firms in Businessweek's Global 1000.

Our systems of higher education, research and innovation are the envy of the world. With the surge in productivity growth over the past three years, there is reason to believe that finally we are reaping the benefits of the revolution in information technology. Many now seek to learn the secrets of our success. At the CEA we constantly receive visitors from Europe who wonder at the flexibility of our labor markets and visitors from Asia who admire our transparent and resilient financial system.

In addition to its policies of fiscal prudence and investing in people and education, **a key pillar in this administration's strategy has been its emphasis on opening markets abroad and keeping our market open at home.** Agreements such as Uruguay Round, NAFTA, and sectoral free trade in financial services, telecommunications and information technology are just the most prominent of the numerous agreements which have been adopted since the Clinton Administration came into office.

Indeed, Agricultural liberalization has been a particular objective of this administration. In the forthcoming ministerial in Seattle, the administration plans to build on its success in the Uruguay Round and help launch a new trade round, in which agriculture will be a major focus. In consultations with many constituents we will refine our goals with respect to reducing trade barriers and subsidies; ensuring standards based on science, limiting domestic supports which distort trade and imposing disciplines on state trading.

There is no question **that we are today more open to international trade than we have been, certainly at any time in this century and probably before that.** Today trade is equal to 24 percent of GDP which means that roughly one in five purchases or sales made by Americans involve a foreigner. In 1998 our agricultural exports valued at 50.6 billion were equal to 26 percent of all cash receipts of US farmers and it is estimated that one in three of our farm acres goes to exports.

.Clearly, a stellar performance and an open economy are quite compatible.

Indeed, we should expect this because international trade yields numerous benefits, which include:

Efficiency. Trade allows us to reap efficiency gains by specializing in producing the products we can make relatively well and buying products from the rest of the world, which they make more cheaply. If we only produced the corn we consumed, our output would be cut by 17 percent for wheat, it would be more than half.

As we expand our exports, Americans obtain more jobs with higher incomes in our most productive and firms and farms. Export firms have been found to pay wage premiums on the order of fifteen percent.

Wages are also higher, because we have access to cheaper imports. The ability to buy cheaper foreign products is an important complement to faster productivity growth in raising living standards and boosting real wages. Today, a dollar buys 13 percent more imported goods and services than it did 1995. Over the same period, nominal average hourly earnings have risen from \$11.43 to \$13.04. This implies that by working an hour, the typical production worker can now buy 29 percent more imported goods and services than she could in 1995. Imports have helped us deliver on our promise of high wage jobs.

Variety. Second, trade enhances consumer choice, by making available products we do not produce at home or are more precisely matched to consumer tastes. Think of what our store shelves would look like without imported products. In some cases, imports are the only way we can obtain goods and key inputs we do not or cannot produce at home.

Competition. Third, trade is an important source of competition in our economy. Free trade complements anti-trust in constraining domestic monopolies. This leads to lower prices for consumers and greater productive efficiency.

Innovation Trade stimulates innovation and technological improvements. We need only recall the major improvements in our domestic steel and automobile industries in response to foreign challenges. Studies of both Japan and the United States find a positive relationship between industrial total factor productivity growth and import growth. By giving our exporters access to global markets, it encourages more spending on R&D. It is perhaps no surprise that the manufacturing and agricultural sectors of our economy most exposed to trade, are the sectors in which productivity growth has been the fastest.

Competitiveness. To compete effectively in world markets, our producers need access to the best components and equipment at world prices. Most complex products today require the combination of both high and low skill activities. By purchasing inputs abroad our firms can leverage their high-skill activities. An example: today's personal computers often come equipped with US software and micro-processors but many other components are made in Asia and elsewhere. Erecting barriers to imports has an unseen boomerang effect on exports. By increasing the costs of inputs that producers use to generate goods and services, protection damages the position of US exporters. It is no surprise that major exporters like Caterpillar are so concerned about higher steel prices, or producers of computers like IBM oppose protection on flat-panel display screens.

Spare Capacity. It is also apparent that by being part of an international economy, and drawing on spare capacity in the rest of the world, our economy has been able to enjoy particularly rapid employment growth, without fear of inflation. This has allowed the Federal reserve more leeway to keep interest rates low and reduce unemployment. In this way, imports have helped boost employment.

With all these benefits from trade, with the strength of our economic performance, with the fact that our market is already very open and others are now eager to open their's, **what explains the concerns about open trade?**

I'd like to distinguish and discuss two sets of concerns. The first relates to the economic impacts of trade, the second to issues of governance and the rules for trade. I believe it is important to deal with these concerns. In some cases, they are exaggerated or misplaced . But there are also cases where the concerns are legitimate, and this administration has pursued policies to deal with them. Let me deal with each set in turn.

Low wage competition. One foolhardy claim is that we simply cannot compete with low wage countries. This folly was best captured by Ross Perot's claims that free trade with Mexico would generate a giant sucking sound as jobs migrated to Mexico. The truth is we certainly can compete. The reason is that it's the cost of production not just the wage rate which matters. And

our costs can be lower as long as we're sufficiently productive. Wage rates in Mexico may be a seventh of those in the US but it turns out so is output per worker. This means that the way we compete is through higher productivity not through lower wages.

Deficits = job loss. A second foolhardy view is the naive statement that trade deficits automatically cost jobs. Look at our economy today and two things are striking first, we have a very large deficit and second, we are closer to full employment than we have been for three decades.

But there are more sophisticated views, which are less easily dismissed:

Trade, as with other changes, may create losers as well as winners.

Dislocation. In the short run, as we've seen recently in sectors such as steel, oil, textiles, and mining and agriculture, increased imports or reduced exports can cause job loss. Clearly the financial crisis overseas, and a boom in world production have placed rural communities today in great great stress.

Inequality. A second concern is that trade is the dominant reason why we have seen growing wage inequality. This could certainly be true in theory. However, most economists who have studied this question looking at the period up through the mid 90s when we did see the premiums earned by skilled workers rise, assign the major role to technology rather than trade—and many suggest about ten or fifteen percent of the skill premium increase is attributable to trade.

But more recent experience is very interesting. Since 1995 we have seen particularly rapid gains for those at the bottom of the income distribution. Indeed according to the economic policy institute those in the lowest quinile have had real wage increases of 10.3 percent – almost those at the top. And this despite the problems which have occurred in world markets as a result of the Asian crisis. **Nonetheless we do need policies to assist those who are displaced and to ensure that work does pay.**

I would emphasize, however, that trade protection is not the answer to either of these concerns. Protection inevitably raises costs to consumers that far outweigh the gains to producers. While there may be a limited role in cushioning some of the change to give industries an opportunity to adjust – as the President has recently provided in the case of the lamb industry -- preventing change would permanently deprive us of the benefits which I have already described. The key response lies in an economy, which is sufficiently flexible to meet the challenge of reaping those benefits.

1. Maintain growth at home and abroad. to keeping the economy as close to full employment as is compatible with low inflation. It is interesting for example to look at what has happened to dislocated workers as the economy has moved closer to full employment.

Every two years, the Bureau of Labor statistics conducts a survey of workers who were displaced from jobs they had held for three years or more. It is striking to contrast the experience when unemployment was high in 91/3 and when it was low in 95/95.¹

First, the number of displaced workers declined by about 25 percent.

Second, by the time the survey was taken only about half those displaced had jobs in the early period, versus about 64 percent in the latter.

Third, In 91/93 reemployed workers experienced a decline of 16 percent in their wages, between 95 and 97, the decline was just two percent.

This does not mean losing your job is not painful. But it does mean once you find a job you can do much better the stronger is the overall economy.

2.Foreign Growth? the principle engine of global economic growth but we've had financial crises in many parts of the world. Foreign growth is good for us. It provides us with markets for our exports. Our Treasury and Federal Reserve have played instrumental roles in managing the global crises and designing a new financial architecture to make the world economy more stable in the future.

3.A third policy response relates to government assistance in providing reemployment services.

The administration has developed numerous policies to assist search and training. A major new mechanism are the federal government job and talent banks servicing millions of workers today. America's Job Bank posts roughly 700,000 jobs on any given day, its talent bank has a total of 112,000 resumes in July 98. In 1998 the President signed the Workforce Investment Act with Individual Training Accounts and lifelong earning tax credits.

4.For the long run the key lies in education and training. Regardless of whether the underlying source is international competition or technological change. The key is education – again policies

5. Finally there is also making sure that work does pay. Here in particular there is a role both for minimum wages set at reasonable levels and for an earned income tax credit. These are all areas in which the administration has taken the lead.

¹ Displaced workers are defined as persons aged 20 years and older who lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished.

The second set of issues relates more closely to trade policy. There are concerns that an open global trading system will undermine domestic sovereignty and damage health labor the environment.

Here too, I believe there are fundamental misconceptions. By joining international organizations and signing trade agreements the US has not given up our ability to determine our own fate. It's the same as with any contract. It makes sense to sign a contract as long as the benefits outweigh the costs. And indeed if the contract no longer pays, one simply must pay compensation. In exactly the same way, the US derives benefits by participating in agreements in which both other countries and we open their markets.

We benefit from a rules based system and have been actively using it much to our advantage. . Over the past four years the administration has brought and won 13 separate cases in agriculture. If it happens that others bring cases and we are found in breach we have the choice of desisting in our behavior, or providing compensation.

In fact, the a problem we have faced, --only in the agriculture cases in Beef and Bananas is how to make sure that the WTO can be more effective in enforcing compliance with its rules. We have obtained favorable rulings and not obtained compliance from the EU. But these are the exception. We expect that in the new trade round to be launched in Seattle, we will be able to make improvements to the system.

A second concern relates to the rules of the trading system. These have shifted heavily from border barriers to concerns about other policies. Some of the most contentious is health, environment and labor. The key in these cases is how to achieve the correct balance, between domestic autonomy on the one hand, and yet the attainment of desirable international norms on the other.

I fear here that ideologies on both sides threaten the trading system. On the one hand, we have those who insist we should only trading with countries that are exactly like us. On the other hand, those who believe there is no role for trade to deal with even the most egregious human rights abuses, and no room to make exceptions even where trade can undermine the environment.

It seems to me that we need to recognize the need for balance in these areas. To think creatively about how those trade-offs can be made. One example of such creativity were the side agreements to the NAFTA in which emphasized enforcement and did not seek to harmonization. Another direction of achieving balance lies in the health area – which has become extremely contentious in our relations with Europe.

Should the Europeans keep out our beef our, or prevent the sale of genetically modified food, even if there are no scientific support for there position. I think not. Indeed a central administration goal is achieving respect for internationally recognized science. At the same time,

however, as Secretary Glickman has recently suggested, there may be a role for private firms voluntarily to inform consumers about how their products were made.

Some suggest we should simply have free markets without any government regulation. But we have seen that good regulation is an important complement to the market. In the food area, the role of genuinely independent regulators who enjoy the public trust is particularly important in allowing the market to flourish.

So in sum, we do need an intelligent approach to realize the full benefits of trade and this is an approach the Clinton Administration has followed. We need supportive macro and adjustment policies to make change in general more achievable. We need international rules and system which enforce basic principles that maintain an open global community but which does not tread too a strongly on the legitimate means of expression for national diversity. Finally we need to ensure that we provide working and farming americans with the best tools available to take advantage of trade and our booming economy.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 17:18:48.00

SUBJECT: Monday Meeting

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

I will be out of town on Monday. You may want to attend the deputies meeting. The trade numbers come out on Tuesday morning, Housing Starts on Wednesday and Steel imports on Thursday.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:16-JUL-1999 11:34:01.00

SUBJECT: Re: Ag Policies.

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Ok - I'll get you something.

Also, be warned that Clinton is heading off to Iowa and an ag "event" is planned. So, by the end of the weekend we could have a new ag policy position. I've heard that Glickman is going to accompany the President but NEC can't confirm.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 13:20:34.00

SUBJECT: Weekly Monitor for 07/16/99

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/16/99
01:20 PM -----

Medley_Global_Advisors@medleyadvisors.com
07/16/99 11:29:26 AM

Record Type: Record

To:
cc:
Subject: Weekly Monitor for 07/16/99

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(See attached file: July 16, 1999.pdf)

- July 16, 1999.pdf

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D25]ARMS243618998.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

Weekly Monitor

July 16, 1999

PART I -- MEDIUM TERM VIEW

Taiwan: The Ultimate US Foreign Policy Challenge

There are three possible trajectories for the Taiwan-Beijing tensions to follow from here. The most positive would involve a subtle backing down by Taiwan's "President" Lee from his position that the two countries should maintain relations at the "state-to-state" level. That would put relations fully back on track by the fall. The middle -- and most likely -- trajectory is that Lee and his Cabinet stick to their current positions but do not take any further action toward declaring independent status. In that case Beijing will soon formally cancel all exchanges and contacts with Taiwan, including a scheduled visit by top officials in October. That would leave diplomacy in a tough spot, but markets would calm down, even though we would be sitting at the brink of war.

The most negative trajectory would be for Lee to push forward -- even marginally -- with the current independence campaign. Beijing has warned US and Taiwanese officials that any movement in that direction would be considered "an act of war." In that case the troop movements you can expect to see would quickly mutate into action; most likely a blockade of the all important Kaohsiung and Keelung harbors. Obviously that would put the United States in a very tough situation and send shock waves through Asia including Tokyo and Seoul. While this is not the most likely outcome it is possible and you need to watch for headlines indicating a more provocative stance from Taipei. For now, Beijing will watch, wait and keep in close high-level contact with the US before any drastic actions are taken.

Three dimensions of uncertainty

The stand-off between mainland China and Taiwan continues. China is pressuring Taiwan to retract or at least modify President Lee's new characterization of cross-strait ties as "special state-to-state" relations. Taiwan has done some clarification by saying that its mainland policy remains unchanged and it is not moving away from the eventual goal of reunification with mainland China. But these statements will not satisfy Chinese leaders. Unless Taiwan backs down or finds a way to spin out of this, tension will remain high. The US has strong incentives to bring the situation under control, but there are strong reasons why neither Beijing nor Taipei will fully cooperate. Here is the political framework for this uncertain and tense stand-off.

China

At the center of this crisis is China's absolutely minimal tolerance for any change in Taiwan's status as part of China. China's Taiwan policy was formulated decades ago and has not changed in the slightest since then. The essential reason Beijing wants Taiwan back has less to do with economic wealth and more to do with China's internal political insecurities and external position in the world than is commonly understood. If Taiwan formally breaks away, the government is afraid that its "mandate to govern" the mainland will be undermined at home, while foreigners would conclude China was militarily impotent (a veritable paper tiger). Chinese leaders from Mao's time to now have been very specific about Taiwan: it should not be allowed to break away and it should be eventually reunified with China.

Three factors have so far helped prevent China from attempting to take Taiwan back by force. First is the prohibitively high cost to both economies, particularly since China has less ability to project its forces across the Taiwan Straits than is often assumed (it can rain down bombs and missiles, but transporting troops would be a bigger challenge). Second is the very real prospect of coming into direct military confrontation with the US, which has a full security protection treaty with Taiwan that it re-stated yesterday in very clear terms. Third is the convenient political fiction that nothing needs to be done right now because the world already understands there is just "One China" that is run out of Beijing. That has allowed Chinese leaders to claim that Taiwan is still theirs and eventually will be reunified.

That is why Lee's attempt to re-define the relationship between Taipei and Beijing as "a special state-to-state relation" is so provocative in Beijing. In one moment that formulation exposes the One China dodge; brings into question the inevitability of reunification on Beijing terms, and could be used as the first step toward real independence. Hence the violent reaction.

China will be watching closely for any sign that Lee's re-characterization leads to real policy outcomes. So far, Taiwan has stated unequivocally that this new understanding of Taipei-Beijing relations doesn't lead to any policy changes. If changes are ever to follow, the consequences will be dire. While military actions over Taiwan will be costly, no Chinese leader will be blamed for wrecking the Chinese economy for going to war to stop Taiwan's independence. No leader wants to go down in history as a traitor for letting Taiwan's independence happen under his watch. Jiang is not considered a "great leader" like Mao or Deng and therefore has even less latitude on this issue. The PLA will dictate Beijing's response to any further provocation and that means a military response will be nearly automatic.

Taiwan

While Beijing is inching toward tolerating the status quo without resorting to military action, a full return to relations requires Lee to back down on the state-to-state formulation and this is much less likely than you may think. First, President Lee has been thinking about this issue for a long time and personally feels very strongly about China's heavy-handed policy

toward Taiwan. As he enters his last year in power he too is thinking about history and his place in China's legacy. He recently published a book (written entirely by himself) on Taiwan's new identity. He is committed to this issue not only just as a policy matter, but as an intellectual challenge.

Second, and to be fair to Lee, he is giving expression to an increasingly wide-held view in Taiwan that the mainland's grip over Taiwan is tightening and is becoming ever more stifling. While there are widely diverging attitudes about just how far this expression of independence should go, there is plenty of voter support for some explicit show of defiance against China. More than 60% of people polled support Lee's new relations statement.

Third, and just as important, presidential election will be held next year. Out of the three viable candidates at this stage, Lee's candidate (who is the current vice president) has the lowest rating -- comparisons with the US are thoroughly unintentional. Arrayed against Lee's favorite is a challenger from within the party who has many of the same positions but is far more popular because he is viewed as slightly anti-establishment. This former NBA star (just kidding), James Soong, has staked out a strong pro-unification platform and has ridden that pledge and his own popularity to a mid-30% approval rating (compared to the Vice-President's 10% popularity). Far on the other side is the DPA candidate, Mr. Chen, who is strongly pro-independence. Chen has recently gravitated toward a more flexible position on independence that combines some defiance with a more pragmatic policy that rejects outright demands for full and immediate breaks with Beijing. That has sharply pushed up his ratings in recent months to 30%. Lee's outburst this week is a shrewdly calculated attempt to maneuver his Vice President toward this fertile middle ground on independence and out flank Soong.

With the support of a large chunk of the population and a significant section of his own party, Lee's incentives for backing down aren't strong. Backing down from this position now will further hurt the man he had intended to help, since they will be all seen as not having the guts to stand up to China. The important question now is whether he will push even further and the answer largely depends on the US.

United States

A major wild card here is the US attitude. Taiwan has always enjoyed implicit and explicit US military protection against the mainland. If the US tells Taiwan that it is provoking China at its own risk and that the US won't be there for it unless it changes its position, it could have enormous influence with Taiwan. But many people in Washington -- some of them in control of Capitol Hill and still deeply opposed to Red China -- remember that US has not exactly been Taiwan's most stalwart ally in the past, and they are demanding a firmer stand now. With Clinton's vulnerability to things Chinese and his desire to get WTO through Congress before they go home this fall, the Republican Taiwan lobby has some significant power. That's part of the reason you saw such a powerful statement out of the State Department yesterday warning Beijing against any military action.

Where do we go from here?

As you read this, mainland China is making active preparations for the worst possible outcome: disrupting Taiwan's shipping lines and even a military showdown. But if Lee stops where he is and the US makes its "One-China" policy unambiguously clear to China and Taiwan, the worst damage in the short term will be the cancellation of the scheduled exchanges. But people who think that this will be no more than a repeat of 1995 and 1996 are unfortunately wrong. Beijing's objectives then were a lot less ambitious and the outcome not easily measurable. This time, the objective of any military actions will be clear: to make Taiwan back down. If maneuvers and military action does start, it will not be an exercise and it will most definitely not just be a test.

PART II -- CORE POSITIONS

G-7

UNITED STATES

- **THE FED** -- As everyone has finally admitted, the neutral bias means nothing about the FOMC's likely decision on August 24, and likewise, the Fed's decision will be data driven; although retreats have been well covered, that much is now consensus -- "one and done" is not a popular school of thought anymore. What is less well known is that the Fed is actively looking for the ammunition to get in at least one more hike because there is widespread fear that inflation indicators are beginning to perk up in the pipeline. We hear more and more talk about "potential inflation" from Fed sources and talk about "real interest rates being 40 basis points too low." Clearly the numbers this week leave Fed tighteners looking like a bunch of nervous nellies and without much cover for their case of vapors, but there are lots of numbers to go before August 24 and industrial commodity prices and gas prices are on the rise sharply. As to the stock market, let's just say that the market's renewed northward climb since the last Fed meeting has not been welcome; whether they knew a neutral bias would trigger that reaction is far more contentious than you think. As one FOMC member tells us, "There will be lots of 'I-told-you-so's at the August meeting."
- **SURPLUS POLITICS** -- All that surplus is burning a hole in Congressional pockets. Our fear has been that GOP massive tax cutting plans spark Democratic nerves and leave both sides in Congress working toward a compromise that the White House cannot veto. If that's going to happen, we continue to believe it means cuts in the \$400 billion- \$500 billion range over ten years and tax cuts are the last thing this economy needs. The only good news is that the Republicans are so inept that the whole process is likely to bog down after the initial veto this month and leave the government running on continuing resolutions for the next year. John Kasich's plan to just give the surplus to George W is attracting some attention in Austin.
- **POLITICS** -- Gore is spending money hand over fist on everything and everyone but is

still without a coherent strategy, theme or image. Bradley out-raises Gore in New York and California and has just about the same money in the bank as Mr. Spendthrift. George W has opted out of all campaign spending limits by foregoing so-called matching Federal dollars. Easy for him since internal campaign predictions say he will raise something like \$250 million before election day next November. Still, the same two problems continue to haunt Bush despite all the primary and fund-raising success. The Republican Party has a powerful and fanatical religious wing that is going to be tempted to split off and adopt Perot's party as a vehicle for its "prayer and voucher" approach to governing. New Hampshire Senator Smith -- a former presidential candidate -- dropped out of the party last week because it was Godless. The second problem is what platform to run on. Maybe its just giving every taxpayer a dollar.

- **DOLLAR** -- A strong dollar is the Summers Treasury credo, but when it comes to dollar/yen, he reminds Tokyo not to push its luck by manipulating the yen to increase growth the old fashioned export-driven way. Miyazawa replies thanks, your opinion is just one of many. Ouch!
- **BUYBACKS** -- Inevitable, and sooner rather than later.

EUROPE

- **ECB** -- ECB Monthly Report indicated a change in tone to the policy discussion in the ECB. The goal is to focus markets on the potential for growth in Europe by hinting that the central bank is becoming more certain of those prospects, just enough to warrant the first vague warnings that rate hikes may be needed sometime in the future (but not for months and months, so you can put away your September shorts right now). Wim then really got into it and the message got -- well -- a little less nuanced. For once we believe Wim got manhandled by the press rather than the other way around. Rather than just rejecting the whole "bias" terminology as a problem for the Fed not the ECB, Wim tried to be a decent guy to the American reporter who asked the question about the ECB's "bias to tighten" by linking the term "bias" to a "reassessment." The thanks he gets is a one point sell-off in bunds and another 25 bps priced into Euribor by end 2000. They will try to correct this mis-message. We suggest the open approach of pointing out that there is no such thing as a policy directive or bias at the ECB.
- **THE EURO** --The rhetorical push from ECB and Fin Mins this week will not be matched by any physical intervention unless the markets put the bottom in the euro for them. No price level is too weak. But we still believe strongly that the fundamental story for the end of euro weakness is stacking up nicely and just waiting for sentiment and flows to catch up with the fundamentals. What the trigger for a big rally in the euro is anybody's guess -- probably more to do with the dollar -- but aside from pure market action, it seems like more good news than bad news is in the pipeline economically and fiscally.
- **FISCAL POLICY** -- There is room for optimism that the Europeans are mending their ways. Eichel's tough-love budget is out for comment to labor unions, industry groups and economic institutes and Eichel and Co. still have to push it through the Bundestag, and the Bundesrat could still be a firefight. But Schroeder is fully committed and ready to put his political weight behind it, as is the realo faction of the Greens, while the CDU is starting to look like the US GOP, having had all their issues stolen. In France, the Finance Ministry is firmly sticking with its 2.3% budget deficit forecast for this year and

a decline below 2% for next year, though revised figures are due out next week. Even some creeping market liberalism is appearing in the form of possible targeted VAT cuts. In Italy, the labor unions are gearing up for a long hot summer on the mere mention of pension reforms by Amato and D'Alema, but they are not for turning. The Chamber of Deputies basically kiboshed pension reform in the 2000 budget this week, so the structural cutting will depend on a new parliament with some backbone. Nevertheless, the 2.4% amended deficit limit will definitely not be breached, and in fact if growth picks up as now expected, it may be quite close to the original target after all.

UNITED KINGDOM

- **EMU POLITICS** -- "Britain in Europe" initiative postponed again to September, but both Labour and pro-Europe Tories insist it is nothing serious -- that Blair is as determined as ever to lead Britain into Europa after the next parliamentary elections, provided, of course, Gordie Brown's fudges, umm conditions, are fulfilled. July launch was in fact scuppered by Blair's July calendar being taken up with those pain in the ass Ulster Unionists and the travel commitments of the Tory heavyweights. September will now be the launch of the campaign, and while the British public remains deeply skeptical, lets see what happens once the euro strengthens and the UK and European economies are on a mutual upswing.
- **BANK OF ENGLAND** -- The Old Lady is at pause for a while as growth is picking up, and the inflation trendline is forecast to be dish-shaped, that is, undershooting the target for now but expected to rise steadily as growth gathers steam. Even the BCC adds its name to those calling for a rate pause, and the TWI is behaving a little better as well. It makes us wonder if we are close to the point of concluding the next change in rates will be to the north rather than the south. Not quite yet, but Eddie may be getting a bit twitchy.

JAPAN

- **BOJ** --Zero interest rate policy until all fears of deflation have left the economy continues to be the mantra. There was no change in policy at today's Policy Board meeting. Stronger economic numbers make it impossible for the doves to sway the hawks on the board. Money supply numbers for June continue to show a slight improvement. M2+CD was up 4.3%, matching the pace last seen in November 1998. Looking at the components of M2+CD, the impact of the BOJ's zero interest rate policy is evident in M1, which grew at 12.2%, with much of that growth from reserves. Quasi-money, which is indicative of bank lending activity, grew by only 1.8%, the slowest growth since October 1998, when LTCB failed, The BOJ is doing its part but the banking system is simply not willing to make loans and to create new credit.
- **DOLLAR/YEN** -- The ranges and intervention strategies still apply. Don't look for a quick change to either. New Vice Minister for International Affairs, Haruhiko Kuroda continued in his predecessor's footsteps and argued forcefully that "premature strengthening of the yen is undesirable." And, by the way, we will intervene to support that statement. The intervention around the Tankan last week has been very effective in making traders wary of buying too many yen and MOF officials are amused by the controversy over whether they intervened on Thursday just after the close. They view the

questions as evidence that market sentiment is unfocused. That's exactly what they want; of course the tensions across the Taiwan Straits is giving them a little help right now.

- **JGBs** -- The first supplementary budget (about Y500 billion) is expected to become law next week. A second supplementary budget is beginning to be talked about and both Miyazawa and Sakiya have indicated they are flexible about its size. We guess it could come in anywhere between Y10 trillion and Y20 trillion. That will add to supply and put upward pressure on yields but, surprise, surprise, MOF seems to be willing to let market forces do their work.
- **POLITICS** -- Another quiet week as the LDP prepares for its presidential election, which is expected to be held before the Prime Minister leaves for the APEC Summit in mid-September. General elections are more likely in July 2000 than in December 1999. Koichi Kato has still not jumped into the LDP presidential race but preparations are clearly underway. In addition to the Komeito, the LDP has invited the Kaikaku Club, a very small political party, to join the coalition.

EMERGING MARKETS

ARGENTINA

- **CONFIDENCE CRISIS**-- Financing Undersecretary Miguel Kiguel yesterday did his best in New York to convince investors that the financing needs will be met both this and next year. To this end he told investors in a private meeting that next year the local market will provide between \$4 billion and \$7 billion coming mainly from the banking and pension fund sectors. The government is still counting on only \$2.8 bn from the IMF out of the current program. But should the international sector dry up for the Argentines, Kiguel argued that the Fund would be ready to at least double that amount. Moreover, he also claimed that the Fund and other IFIs could put together a desperation package of approximately \$10 billion, where up to \$9 billion could come from the Fund. This package would not be precautionary in nature, but rather a last ditch effort to fill a potential gap. We do not believe that conversations on this front are very advanced, although we can tell you that Menem does feel that his friend Camdessus will be there for him, if needed.
- **POLITICAL IMPASSE** -- Thanks to the market's reaction earlier in the week the leaders of the main political parties agreed to send their top economic advisors to NYC at the end of the month to help remove some of the uncertainty regarding the post-Menem era. By the way, this was one of the things the Fund had been requesting for some time. Duhalde's private polls show him lagging and he continues to have an incentive to be populist and wreckless on the stump. Political shocks continue to be a serious possibility, and they should be expected.
- **NO PASARAN** -- The fiscal convertibility bill did not pass this last week, with members of Congress fully engaged in the campaign it looks increasingly difficult that the bill be written into law this year. See, they knew it all along, the Fund would be there.

BRAZIL

- **IN SEARCH OF ISSUANCE** -- This week's cancellation of a treasury FRN issue was attributed to external factors, principally Argentina. The delays in adjusting the public sector debt profile and a trade balance now swinging into deficit won't help improve the financing picture, and not all of the blame can be placed on the Argentines.
- **CARDOSO'S CABINET** -- Brazilian President Cardoso's request for mass resignations from his cabinet was more symbolic than substantive. Even a planned announcement of civil service cuts and administrative restructuring will not change the fact that FHC, now hitting all-time lows in approval ratings, is as subservient to party politics as ever. As of last night, the President was having trouble figuring out where to place the people his "allies" in the PMDB were sending to his cabinet. The fundamental questions about how much belt tightening can be accomplished by the administration and how much structural reform can be pushed through a truculent Congress remain open, and the cabinet announcement promised for later today is unlikely to answer them.
- **JUGGLING WITHOUT A STRATEGY** -- The Cardoso administration is trying to juggle its own internal coalition conflicts, the need for continued fiscal consolidation and structural reform, and ongoing conflicts with the states over debts, revenues, and now industrial subsidies. The lack of any clear strategy or defining vision for Cardoso's second term leaves the administration scrambling from tactical fix to tactical fix. Some say the Asian crisis may have abated too soon to finish the needed reforms, but we know where that is really true. Maybe FHC will get a galvanizing second round, courtesy of his neighbors or home-grown.

CHINA

- **TAIWAN'S THREE IFS** -- The situation is as serious as it gets and any mishandling by any of the three parties from here would certainly lead to military action: 1) if Lee takes his "state-to-state relations" theory further; 2) if the US is perceived by China to be wavering in its commitment to the "one-China" policy; or 3) if Jiang simply snaps under the pressure from the military at home. For now, China will likely cancel all the scheduled exchanges with Taiwan but no military action appears imminent. China will continue to step up the pressure on Taiwan. Continued volatility ahead.
- **US-CHINA** -- Taiwan crisis creates two equally likely outcomes for this relationship. Military involvement is one, as mentioned above. However, if the US helps defuse the tension and makes Taiwan back down somewhat, it could actually help US-China relations get back on track more quickly. Even WTO talks could be resumed soon.
- **MIRROR IMAGE OF THE FED** -- Zhu wants to create the wealth effect that Chairman Greenspan is trying to eliminate. Despite the recent corrections, you can count on the government that the recent stock market rallies won't be a flash in the pan. Zhu feels that with profits from the stock markets, some people could spend more and, in the process, debt-burdened SOEs will find it easier to raise capital in the market. Initial indications are that the policy is having some of the intended effect.
- **NO DEVAL** -- The RMB issue will be discussed at Beidaihe where top leaders will soon gather to escape the summer heat. At this point, top policy makers largely agree with each on the merits of no-devaluation. Besides, Chinese leaders are currently more focused on the glorious moment on October 1 when the People's Republic celebrates

its 50th anniversary.

- **INTEREST RATES** -- Short-term stable but continuing to trend down for this year.

HONG KONG

- **HK ECONOMY**-- Barring another bout of contagion among Asian economies or aggressive tightening by the Fed, HK's economy is poised to return to positive growth later this year. All recent data indicate the economy is creeping out of the territory's worst recession in decades. The buzz about turning HK into a regional hi-tech center is also adding to the local confidence. War in the Taiwan Straits, however could put a stop to all this.
- **WAIT AND SEE** -- HKAB has been keeping interest rates unchanged despite the Fed's 25 bp hike. The government considers low rates very important for HK's recovery. The spread between US and HK interest rates is narrowed to 25 bp now but top HK officials feel that the measures put in place last August should be reasonably adequate in deterring speculative attacks on the peg. HKAB wants to stick to the no-change course until the Fed's next move, unless there is sign of serious outflow.
- **DEFINING HK** -- During good times, HK often gets the best of both the Chinese and the Western worlds. At a time when relations between China and the West are strained, however, there is a high price to pay for being the bridge. The US fears that HK can act as a conduit for hi-tech exports to China. HK needs to demonstrate its independence from the mainland, but runs the risk of upsetting the central government. "What is HK?" will dominate the political discourse for some time to come.

INDONESIA

- **COUNTING DONE** -- OK, so they finally got that over with and confirmed the Megawati's PDI-P is the clear leader. She will still require a coalition to take the presidency, and President Habibie has pointed out that just because one party has the most votes doesn't mean it will win the presidency. As the 135 provincial reps get chosen (and equal weighting of provinces gives Golkar an advantage), Mega's 34 seat lead could be further reduced. A Ciganjur II meeting of the major opposition parties may set the stage for the start of real bargaining, but equally important will be Wiranto's choice. The action at the ballot boxes will be nothing compared to the action in the [clove cigarette] smoke-filled-rooms.
- **TIMOR TENSION** -- International concern over violence in East Timor was enough to spur a ministerial visit but tensions with the UN have been addressed sufficiently for the UN to start registering voters. The self-determination vote set for August is probably the most contentious policy left for the lame duck Habibie administration to implement, and could have implications for other restive regions (Aceh, Irian Jaya).
- **IMPRESSIONS OF REFORM** -- The various announcements about how many instances of corruption were discovered in various ministries and how much graft money was recovered make for a nice show. But the real action has to come from deeper administrative and corporate reform and restructuring, and it is not clear how effectively either of the leading contenders will push that agenda.

KOREA

- **WON MORE TIME** -- The strong won continues to concern the authorities, and the weakened yen makes things worse. Even dollar strength due to Taiwan concerns has been bounded. The policy approach is as it has been: efforts will be made to manage the supply of and demand for dollars in the market, but IMF-agreed limitations on direct intervention remain.
- **POLITICS OF INTIMIDATION** -- With former presidential contender Lee Hoi-chang joining the opposition GNP's Assembly delegation, it was time for President Kim Dae-jung to show who's boss. Kim Tae-won, the former director of finance for GNP and Lee HC's personal bagman, was arrested on campaign finance charges. The GNP struck back by preparing election fraud charges against the Governor of Kyonggi, former Finance Minister Lim Chang-yuel (who worked for both Kim Young-sam and DJ) but before they got traction the poor guy was cut loose by the President, and now joins his wife in jail on corruption charges. As long as the GNP remains off-balance, disgruntled ULD members have no place to run. PM Kim Jong-pil will be tested by his own party, but at the end of the day he has no alternative route to power than maintaining the coalition.
- **STALLED RESTRUCTURING** -- Korean officials assure us that the new cabinet team has the President's full confidence to implement economic reforms. But there is still no sign of finalization of the biggest pending deals. Since corporate restructuring is more a political game than a market-based solution, outcomes will be determined by the pace at which bureaucrats make decisions in an environment of political upheaval.
- **NO GARDEN PARTY** -- Preparations for the next round of 4-party talks take place under the shadow of North Korea's missile silos and Yellow Sea artillery deployments by the South. The first challenge will be to get South Korea, the US, and Japan on the same page with respect to a possible missile test later this summer. We may get to see some of the new carrots and sticks policy sooner than anyone had planned.

MEXICO

- **COLD PIZZA** -- Zedillo's favorite (for now) PRI candidate Francisco Labastida has assembled a team of old-school PRI operators with such diversity that internal rivalries are growing. Add to this the fact that Labastida is increasingly negatively perceived as the "official" candidate and is caught having to defend the Zedillo legacy. That burden combined with his Obuchi-like charisma has made Roberto Madrazo all the more effective. Until Madrazo is bought out, he will continue to weaken Labastida with attacks on the current economic and social model that are striking a chord with the PRI rank and file. The longer this continues the better the prospects for the opposition.
- **DIVIDED WE FALL** -- The PAN and PRD are trying to find a way to move between the horns of a dilemma: unite in a coalition and give up sole influence over candidate choice or remain divided and fall before the PRI candidate. The gubernatorial elections in the State of Mexico and Nayarit confirmed the game that is to be played. Now it remains for the other parties to decide how they will play it. With election rules unchanged, PAN and PRD will have to give up that much more (campaign funding, for one thing) to form a PRI-beating coalition, but it just might be worth it.
- **BAIL OUT, PART II** -- The Mackey inquiry condemns the government for poor supervision and permitting banks to downgrade credits to off-load them to Fobaproa.

That conveniently let some favored debtors off the hook, since no one expected Fobaproa to pursue recoveries (an expectation that has largely proved true). Net result: that bailout cost more than it had to. Just in case you thought things had changed, in a year or two compare the final cost of taking over Serfin with the original estimates. Internal government figures are already significantly higher than the public acknowledgement.

RUSSIA

- **DOMESTIC POLITICS: BILLS, BILLS, BILLS** -- A hazy sort of pre-campaign lethargy describes the capital right now. The IMF will reinsure Russia only to the tune of \$1.9 billion until the end of 1999, meaning, as one of our friends put it, "they didn't want to contribute to the 1999 election campaign, unlike 1996." Thus the unseemly scramble for control of Gazprom: part of the fight is about perhaps flogging a small piece of the oil giant to raise some campaign funds. The presidential administration continues to build its political options for the autumn. Sample: the plans to bury Lenin and remove the mausoleum. Pro: Might annoy the Commies enough to provoke a bannable offense. Con: Tourists currently line up for the Soviet Madame Tussaud's; will they visit for a chance to dance on his grave?
- **EXTERNAL FINANCE: YOU ONLY GET WHAT YOU GIVE** -- With an IMF deal all but signed (albeit one with a lending schedule that extends over 18 months) attention will turn to Paris and London Club negotiations scheduled for the end of this month and the beginning of the next. Kasyanov has prevented a lawsuit by the "New York Club" of extra-irate investors for now, but that may have less to do with his charms and be more a recognition that the provisional wing of the London Club doesn't control enough debt to really throw a spanner in the works...yet.
- **THE ECONOMY: BLACK GOLD, TEXAS TEA** -- The country behaves like a giant oil well, so how one feels about the Russian economy depends on how one feels about Texas tea. Gotta love those students in Teheran. Concerns that the ruble might fall after the abolition of the dual currency sessions are a quasi-right conclusion from the wrong premise. The liquidity pile-up in the Russian banking sector will be the root cause of ruble depreciation, but by the time you notice the cheaper ruble the government's new domestic bonds will have sucked much of the offending liquidity out of the system.

VENEZUELA

- **WHAT ME WORRY** -- What's a 4.6 billion bolivar fine from the Electoral Council to President Chavez? About \$7600, not enough to really deter the President from continuing to use the media, including "El Correo del Presidente" to promote his own candidates for the Constituent Assembly. Chavez agreed to pull his weekly broadcast programs, but went on the air to blow his own horn in doing so. Elections are scheduled for July 25, and a convincing victory is critical to the public relations aspect of Chavez' "peaceful revolution." Polls show Chavez' approval rating above 65%.
- **WHO NEEDS CONGRESS?** -- US companies operating in Venezuela can be thankful the Congress approved a tax treaty with the US this week, since there may be no Congress at all after next week. El Presidente has promised that his first request to the Constituent Assembly will be to dissolve Congress. His plan was seconded by the

president of Congress, a Chavez ally and (surprise!) a retired soldier.

- **OR THE CENTRAL BANK EITHER** -- Not content to destroy the independence of the legislature, Chavez took on the central bank as well this week, vowing to impose lower interest rates on the financial system in order to stimulate growth. Why settle for only a political crisis when you can have a banking crisis as well?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 16:31:35.00

SUBJECT: WTO Deputies Meetings

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Revised schedule for upcoming NEC WTO meetings taking place within the next two weeks.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/16/99

04:30 PM -----

Sharon H. Yuan

07/16/99 03:59:11 PM

Record Type: Record

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

cc:

Subject: WTO Deputies Meetings

Monday, 5:30 pm (Rm 211) DC on WTO- Environment

Tuesday, 5:00 pm (Rm 180) DC on WTO

Friday, 3:00 pm (Rm 180) DC on WTO

Monday, July 26, 10:30 am (Rm 211) DC on WTO

----- Forwarded by Sharon H. Yuan/OPD/EOP on 07/16/99

01:06 PM -----

Sharon H. Yuan

07/16/99 11:58:50 AM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: WTO Deputies Meetings

The Thursday's Deputies Meeting on WTO will be moved to Monday at time tbd. I will let you know as soon as things are arranged.

Thanks.

----- Forwarded by Sharon H. Yuan/OPD/EOP on 07/16/99
11:58 AM -----

Sharon H. Yuan
07/15/99 01:48:38 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Peter A. Weissman/OPD/EOP@EOP, Melissa G. Green/OPD/EOP@EOP
Subject: WTO Deputies Meetings

Below is a list of deputies meeting on WTO scheduled for next week. All of the meetings will be principals plus one ONLY. Please let me know whether or not your principal will be able to attend.

Monday, 5:30 pm (Rm 211) DC on WTO- Environment
Tuesday, 5:00 pm (Rm 180) DC on WTO
Thursday, 4:30 pm (Rm 180) DC on WTO
Friday, 3:00 pm (Rm 180) DC on WTO

Message Sent

To: _____
Lisa D. Branch/CEA/EOP@EOP
donna_jackson@ita.doc.gov @ inet
suzette_right@ita.doc.gov @ inet
norris-ronetta@dol.gov @ inet
alexandrowiczae@state.gov @ inet
lenora.cully@do.treas.gov @ inet
andrew.baukol@do.treas.gov @ inet
OBERDORFER_AMY@ustr.gov @ inet
Andrew F. Schneider/OVP@OVP
Carolyn T. Wu/WHO/EOP@EOP
Rebecca L. Walldorff/WHO/EOP@EOP
kblythe@usda.gov @ inet
D Holly Hammonds/OPD/EOP@EOP
Matthew P. Schaefer/NSC/EOP@EOP
Richard M. Samans/OPD/EOP@EOP

Message Sent

To:

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D Holly Hammonds/OPD/EOP@EOP
Matthew P. Schaefer/NSC/EOP@EOP
Richard M. Samans/OPD/EOP@EOP
corless.hamm@usda.gov @ inet
chamm@usda.gov @ inet

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 11:06:19.00

SUBJECT: English Bill

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Pre the discussion at the Deputies meeting, Malcom Lee has called a 3:30 interagency, staff level meeting to discuss HR 1505, the English Bill.

(And, possibly, to reach staff-level agreement on a position.) Do you have any background information on the legislation, other than the DOC review? What was our position on 201 revision after the quota bill died? Any important nuance?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Pfallon@worldbank.org (Pfallon@worldbank.org [UNKNOWN])

CREATION DATE/TIME:16-JUL-1999 15:13:50.00

SUBJECT: Thank You

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

CC: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

CC: Vhon@worldbank.org (Vhon@worldbank.org [UNKNOWN])

READ:UNKNOWN

TEXT:

On behalf of Vivian and myself, thank you for being a speaker at our session on "World Trade and Labor Markets" in PREM Week '99. The audience found both the presentation and discussion interesting.

We will also reimburse you for mileage or gas and parking. Please have Ms. Branch send me your receipts for parking and your gas/mileage request. Unfortunately, the Bank is in in the midst of changing our computer/accounting system. The system transition will cause some delay in processing the Statement of Expenses. I am embarassed to report that it will take about 2 months to reimburse you after receiving your receipts. We thank you for your patience and apologize for any inconvenience this may cause.

Regards,
Peter

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:16-JUL-1999 10:06:40.00

SUBJECT: Re: Ag Policies.

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

In Glickman's Q's and A's from the biotech speech he blasted the 1996 Farm Bill (Freedom to Farm). He suggested that Congress would "rewrite" the Bill during the big ag bail out this summer. Do you need more background on Freedom to Farm?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 12:33:41.00

SUBJECT: Market memo

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Hi Robert,

Are you planning to take up the torch as regards signing the weekly market memo? We usually have it ready for signing around 6pm on Fridays.

Other options that readily come to mind include

- (1) having a senior economist sign it instead
- (2) asking Janet to sign it
- (3) not doing it
- (4) having a staff economist (me) sign it

Aside: In the past, during holiday times, when there weren't many people in the office, Jeremy Rudd (my predecessor but nominally a senior economist) signed it himself.

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 14:38:30.00

SUBJECT: Ryan: Please see Robert immediately

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [UNKNOWN])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Aaron D. Tracy (CN=Aaron D. Tracy/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 16:23:26.00

SUBJECT: updated grains speech

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D30]ARMS29157100M.236 to ASCII,

The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Benefits and Concerns about Open Trade.

RZL.

Draft of Comments for a Presentation to the Grains Council - July 18th.

First, I would like to thank BLAH for inviting me to speak on the benefits of trade. I know trade is important to you as business people, perhaps in an even more tangible way than it is to me as an economist. The past 10 years have been terrific for trade:

If the 1990s have taught us one thing, it is that strong growth and improved competitiveness go hand-in-hand with an open economy. We are enjoying the longest peacetime economic expansion ever, which has created over 18 million jobs. We have the lowest unemployment rates in almost three decades and the lowest core inflation rates since the mid 1960s. And in the past three years we have seen surging productivity growth and rising real wages.

US firms are again the world's most competitive in the high tech sectors of the future, such as aerospace, software, computers, finance, semiconductors, entertainment, and pharmaceuticals. US firms make up 8 of the top 10 and 21 of the top 25 firms in Businessweek's Global 1000.

Our systems of higher education, research and innovation are the envy of the world. With the surge in productivity over the past three years, there is reason to believe that finally we are reaping the benefits of the revolution in information technology. Many now seek to learn the secrets of our success. At the CEA we constantly receive visitors from Europe who wonder at the flexibility of our labor markets and visitors from Asia who admire our transparent and resilient financial system.

In addition to its policies of fiscal prudence and investing in people and education, **a key pillar in this Administration's strategy has been its emphasis on opening markets abroad and keeping our market open at home.** Agreements such as Uruguay Round, NAFTA, and sectoral free trade in financial services, telecommunications and information technology are just the most prominent of the numerous agreements which have been adopted since the Clinton Administration came into office

At the same time there is no question **that we are today more open to international trade than we have been, certainly at any time in this century and probably before that.** Today trade is equal to 24 percent of GDP, which means that roughly one in five purchases or sales made by Americans involve a foreigner. In 1998 our agricultural exports, valued at 50.6 billion, were equal to 26 percent of all cash receipts of US farmers.

Clearly, a stellar performance and an open economy are quite compatible.

Indeed, we should expect this because international trade yields numerous benefits, which include:

Efficiency. Trade allows us to reap efficiency gains by specializing in producing the products we can make relatively well ... and buying products from the rest of the world which they make more cheaply. If, instead of exporting corn, we only produced the amount of corn we consumed, our output would be cut by XX percent.

As we expand our exports, Americans obtain more jobs with higher incomes in our most productive and competitive firms and farms. Export firms have been found to pay wage premiums on the order of fifteen percent.

Wages are also higher, because we have access to cheaper imports. The ability to buy cheaper foreign products is an important complement to faster productivity growth in raising living standards and boosting real wages. Today, a dollar buys 13 percent more imported goods and services than it did 1995. Over the same period, nominal average hourly earnings have risen from \$11.43 to \$13.04. This implies that by working an hour, the typical production worker can now buy 29 percent more imported goods and services than she could in 1995. Imports have helped us deliver on our promise of high wage jobs.

Variety. Second, trade enhances consumer choice, by making available products we do not produce at home or are more precisely matched to consumer tastes. Think of what our store shelves would look like without imported products. In some cases, imports are the only way we can obtain goods and key inputs we do not or cannot produce at home.

Competition. Third, trade is an important source of competition in our economy. Free trade complements anti-trust in constraining domestic monopolies. This leads to lower prices for consumers and greater productive efficiency.

Innovation Trade stimulates innovation and technological improvements. We need only recall the major improvements in our domestic steel and automobile industries in response to foreign challenges. Studies of both Japan and the United States find a positive relationship between industrial total factor productivity growth and import growth. Giving our exporters access to global markets encourages more spending on research and development. It is perhaps no surprise that the manufacturing and agricultural sectors of our economy most exposed to trade, are the sectors in which productivity growth has been the fastest.

Competitiveness. To compete effectively in world markets, our producers need access to the best components and equipment at world prices. Most complex products today require the combination of both high and low skill activities. By purchasing inputs abroad our firms can leverage their high-skill activities. An example: today's personal computers often come equipped with US software and micro-processors but many other components are made in Asia

and elsewhere. Erecting barriers to imports has an unseen boomerang effect on exports. By increasing the costs of inputs that producers use to generate goods and services, protection damages the position of US exporters. It is no surprise that major exporters like Caterpillar are so concerned about higher steel prices, or producers of computers like IBM oppose protection on flat-panel display screens.

Spare Capacity. It is also apparent that by being part of an international economy, and drawing on spare capacity in the rest of the world, our economy has been able to enjoy particularly rapid employment growth, without fear of inflation. This has allowed the Federal Reserve more leeway to keep interest rates low and reduce unemployment. In this way, imports have helped boost employment.

Surprising Resistance. Given the competitiveness of our economy, given the high levels of employment, and given the openness, which implies that when we sign trade agreements others reduce their barriers by far more than we reduce ours, it is quite surprising that the Congress has shown considerable reluctance to provide the President with Trade Negotiating Authority. In an age when our economy has benefited so greatly from the exchange of goods with our friends around the world, we still see considerable opposition to trade agreements both from left and from the right.

What explains this concern? I'd like to distinguish and discuss two sets of concerns. The first relates to the economic impacts of trade, the second to issues of governance and the rules for trade. I believe it is important to deal with these concerns. In some cases, they are exaggerated or misplaced. But there are also cases where the concerns are legitimate, and this administration has pursued policies to deal with them. Let me deal with each set in turn.

Low wage competition. One foolhardy claim is that we simply cannot compete with low wage countries. This folly was best captured by Ross Perot's claims that free trade with Mexico would generate a giant sucking sound as jobs migrated to Mexico. The truth is we certainly can compete. The reason is that it's costs, rather than wages which matter. And our costs can be lower as long as we're sufficiently productive. Wage rates in Mexico may be a seventh of those in the US but it turns out so is output per worker. This means that the way we compete is through higher productivity and better skills, not through lower wages.

Deficits = job loss. A second foolhardy view is the naive statement that trade deficits automatically cost jobs. Look at our economy today and two things are striking first, we have a very large trade deficit and second, we are closer to full employment than we have been for three decades.

But there are more sophisticated views, which are less easily dismissed. Trade, as with other changes, may create losers as well as winners:

Dislocation. In the short run, as we've seen recently in sectors such as steel, oil, textiles,

and mining and agriculture, increased imports or reduced exports can cause job loss.

Inequality. A second concern is that trade is the dominant reason why we have seen growing wage inequality. This is theoretically possible, but has been shown implausible by recent studies. Economists who have studied the issue of wage inequality looked at the period up through the mid-90s when we saw the premiums earned by skilled workers rise. They assign the major role to technology rather than trade — and many suggest about ten or fifteen percent of the skill premium increase is attributable to trade.

But more recent experience is very interesting. Since 1995 we have seen particularly rapid gains for those at the bottom of the income distribution. Indeed according to the economic policy institute those in the lowest quintile have had real wage increases of 10.3 percent – almost as much as those at the top. And this despite the problems that have occurred in world markets as a result of the Asian crisis. Nonetheless we do need policies to assist those who are displaced and to ensure that work does pay.

I would emphasize, however, that trade protection is not the answer to any of these concerns. Protection inevitably raises costs to consumers that far outweigh the gains to producers. While there may be a limited role in cushioning some of the change to give industries an opportunity to adjust – as the President has recently provided in the case of the lamb industry -- preventing change would permanently deprive us of the benefits of trade. The key response lies in an economy which is sufficiently flexible to meet the challenge of reaping those benefits.

1. Maintain domestic growth. One aspect relates to keeping the economy as close to full employment as is compatible with low inflation. It is interesting for example to look at what has happened to dislocated workers as the economy has moved closer to full employment. First, the Bureau of Labor Statistics has shown that the number of displaced workers decreased approximately 25% between 1992 and 1996. Second, displaced workers who re-entered the work force in 1992 made 16% less than their previous jobs, but in 1996 re-employed workers made only 2% less on average than before.

This does not mean losing your job is not painful. But it does mean once you find a job you can do much better the stronger the overall economy.

2. A second key principle is encouraging foreign growth. The US has been the principle engine of global economic growth but we've had financial crises in many parts of the world. Foreign growth is good for us because it provides us with markets for our exports.

3. A third policy response relates to government assistance in providing reemployment services. The administration has developed numerous policies to assist search and training. A major new mechanism is the federal government job and talent banks, which service millions of workers today. America's Job Bank posts roughly 700,000 jobs on any given

day, its talent bank has a total of 112,000 resumes in July 98. In 1998 the President signed the Workforce Investment Act with Individual Training Accounts and lifelong earning tax credits.

4. In the long run the key lies in education and training, regardless of whether the underlying source is international competition or technological change, education and training will enable American workers to make the most of our robust economy.

5. Finally, we must make sure that work does pay. Here in particular there is a role both for minimum wages set at reasonable levels and for an earned income tax credit. These are both areas in which the Administration has taken the lead.

The second set of issues relates more closely to trade policy. There are concerns that an open global trading system will undermine domestic sovereignty and damage health labor the environment.

Here too, I believe there are fundamental misconceptions. By joining international organizations and signing trade agreements the US has not given up our ability to determine our own fate. It's the same as with any contract that your sign in the course of doing business. It makes sense to sign a contract as long as the benefits outweigh the costs. [And indeed if the contract no longer pays, one simply must pay compensation.] In exactly the same way, the US derives benefits by participating in agreements in which both countries open their markets.

We benefit from a rules-based system and have been actively using it much to our advantage. These rules allow us to open untapped markets and protect our trade interests. Occasionally, we are found in breach of trade rules... if that happens, we still have the choice of changing our policy, or providing compensation.

In fact, the real problem we face is how to make sure that the WTO can be more effective in enforcing its rules. Indeed, we have had particular problems recently with Europe, for example, in the case of Bananas, and in the case of Beef hormones. We have obtained favorable rulings and not obtained compliance from the EU. We hope that in the new trade round to be launched in Seattle, we will be able to make improvements to the system.

A second concern relates to the rules of the trading system. These have shifted heavily from border barriers to concerns about other policies. Some of the most contentious are health, environment and labor. The key in these cases is how to achieve the correct balance, between domestic autonomy on the one hand, and the attainment of desirable international norms on the other.

I fear here that ideologies on both sides threaten our trading system. On the one hand, we have those who insist we should only trade with countries that are exactly like us. On the other hand, those who believe there is no role for trade to deal with even the most egregious human rights abuses, and no room to make exceptions even where trade can seriously undermine the

environment.

It seems to me that we need to recognize the need for balance in these areas. To think creatively about how those trade-offs can be made. Good examples of such creativity are the side agreements to NAFTA, which emphasized enforcement, and not harmonization. Another direction of achieving balance lies in the health area – which has become extremely contentious in our relations with Europe.

Should the Europeans keep out our beef out, or prevent the sale of genetically modified food, even if there are no scientific support for their position? I think not. At the same time, however, as Secretary Glickman has recently suggested, there may be a role for private firms to voluntarily to inform consumers about how their products were made.

Some suggest we should simply have free markets without any government regulation. But we have seen that good regulation is an important complement to the market. Indeed only when consumers can have faith in regulation will the market flourish.

So in sum, we do need an intelligent approach to realize the full benefits of trade... and this is an approach the Clinton Administration has followed. We need supportive macroeconomic and adjustment policies to make change in general more achievable. We need an international system which enforces basic principles for free and fair trade, and international rules that maintain an open global community but do not tread too strongly on legitimate means of expression for national diversity. Finally, we need to ensure that we provide working Americans with the best tools available to take advantage of trade and our booming economy.

Benefits and Concerns about Open Trade.

RZL.

Draft of Comments for a Presentation to the Grains Council - July 18th.

First, I would like to thank BLAH for inviting me to speak on the benefits of trade. I know trade is important to you as business people, perhaps in an even more tangible way than it is to me as an economist. The past 10 years have been terrific for trade:

If the 1990s have taught us one thing, it is that strong growth and improved competitiveness go hand-in-hand with an open economy. We are enjoying the longest peacetime economic expansion ever, which has created over 18 million jobs. We have the lowest unemployment rates in almost three decades and the lowest core inflation rates since the mid 1960s. And in the past three years we have seen surging productivity growth and rising real wages.

US firms are again the world's most competitive in the high tech sectors of the future, such as aerospace, software, computers, finance, semiconductors, entertainment, and pharmaceuticals. US firms make up 8 of the top 10 and 21 of the top 25 firms in Businessweek's Global 1000.

Our systems of higher education, research and innovation are the envy of the world. With the surge in productivity over the past three years, there is reason to believe that finally we are reaping the benefits of the revolution in information technology. Many now seek to learn the secrets of our success. At the CEA we constantly receive visitors from Europe who wonder at the flexibility of our labor markets and visitors from Asia who admire our transparent and resilient financial system.

In addition to its policies of fiscal prudence and investing in people and education, **a key pillar in this Administration's strategy has been its emphasis on opening markets abroad and keeping our market open at home.** Agreements such as Uruguay Round, NAFTA, and sectoral free trade in financial services, telecommunications and information technology are just the most prominent of the numerous agreements which have been adopted since the Clinton Administration came into office

At the same time there is no question **that we are today more open to international trade than we have been, certainly at any time in this century and probably before that.** Today trade is equal to 24 percent of GDP, which means that roughly one in five purchases or sales made by Americans involve a foreigner. In 1998 our agricultural exports, valued at 50.6 billion, were equal to 26 percent of all cash receipts of US farmers.

Clearly, a stellar performance and an open economy are quite compatible.

Indeed, we should expect this because international trade yields numerous benefits, which include:

Efficiency. Trade allows us to reap efficiency gains by specializing in producing the products we can make relatively well ... and buying products from the rest of the world which they make more cheaply. If, instead of exporting corn, we only produced the amount of corn we consumed, our output would be cut by XX percent.

As we expand our exports, Americans obtain more jobs with higher incomes in our most productive and competitive firms and farms. Export firms have been found to pay wage premiums on the order of fifteen percent.

Wages are also higher, because we have access to cheaper imports. The ability to buy cheaper foreign products is an important complement to faster productivity growth in raising living standards and boosting real wages. Today, a dollar buys 13 percent more imported goods and services than it did 1995. Over the same period, nominal average hourly earnings have risen from \$11.43 to \$13.04. This implies that by working an hour, the typical production worker can now buy 29 percent more imported goods and services than she could in 1995. Imports have helped us deliver on our promise of high wage jobs.

Variety. Second, trade enhances consumer choice, by making available products we do not produce at home or are more precisely matched to consumer tastes. Think of what our store shelves would look like without imported products. In some cases, imports are the only way we can obtain goods and key inputs we do not or cannot produce at home.

Competition. Third, trade is an important source of competition in our economy. Free trade complements anti-trust in constraining domestic monopolies. This leads to lower prices for consumers and greater productive efficiency.

Innovation Trade stimulates innovation and technological improvements. We need only recall the major improvements in our domestic steel and automobile industries in response to foreign challenges. Studies of both Japan and the United States find a positive relationship between industrial total factor productivity growth and import growth. Giving our exporters access to global markets encourages more spending on research and development. It is perhaps no surprise that the manufacturing and agricultural sectors of our economy most exposed to trade, are the sectors in which productivity growth has been the fastest.

Competitiveness. To compete effectively in world markets, our producers need access to the best components and equipment at world prices. Most complex products today require the combination of both high and low skill activities. By purchasing inputs abroad our firms can leverage their high-skill activities. An example: today's personal computers often come equipped with US software and micro-processors but many other components are made in Asia

and elsewhere. Erecting barriers to imports has an unseen boomerang effect on exports. By increasing the costs of inputs that producers use to generate goods and services, protection damages the position of US exporters. It is no surprise that major exporters like Caterpillar are so concerned about higher steel prices, or producers of computers like IBM oppose protection on flat-panel display screens.

Spare Capacity. It is also apparent that by being part of an international economy, and drawing on spare capacity in the rest of the world, our economy has been able to enjoy particularly rapid employment growth, without fear of inflation. This has allowed the Federal Reserve more leeway to keep interest rates low and reduce unemployment. In this way, imports have helped boost employment.

Surprising Resistance. Given the competitiveness of our economy, given the high levels of employment, and given the openness, which implies that when we sign trade agreements others reduce their barriers by far more than we reduce ours, it is quite surprising that the Congress has shown considerable reluctance to provide the President with Trade Negotiating Authority. In an age when our economy has benefited so greatly from the exchange of goods with our friends around the world, we still see considerable opposition to trade agreements both from left and from the right.

What explains this concern? I'd like to distinguish and discuss two sets of concerns. The first relates to the economic impacts of trade, the second to issues of governance and the rules for trade. I believe it is important to deal with these concerns. In some cases, they are exaggerated or misplaced. But there are also cases where the concerns are legitimate, and this administration has pursued policies to deal with them. Let me deal with each set in turn.

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CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 15:53:21.00

SUBJECT: Phone Message from Karen

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: Karen Company: Roger Porter Ofc Phone: FAX: Message: Roger is out the ofc this afternoon; will return on Mon, 7/19. (Do you plan to contact Roger while you're in Boston on Mon, 7/19?)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Foreign Policy Research Inst <fpri@aol.com> (Foreign Policy Research Inst <fpri@aol.com> [UNKNOWN])

CREATION DATE/TIME:16-JUL-1999 18:34:05.00

SUBJECT: The Coming Transformation of the Muslim World by Dale F. Eickelman

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TEXT:

Foreign Policy Research Institute WIRE

A Catalyst for Ideas

THE COMING TRANSFORMATION OF THE MUSLIM WORLD
by Dale F. Eickelman

Volume 7, Number 9

August 1999

This essay was adapted from a lecture delivered on June 9, 1999. FPRI thanks John M. Templeton, Jr., for sponsoring the lecture and Montgomery, McCracken, Walker & Rhoads, LLP for hosting it.

Dale F. Eickelman is the Ralph and Richard Lazarus Professor of Anthropology and Human Relations at Dartmouth College.

THE COMING TRANSFORMATION OF THE MUSLIM WORLD

The 1999 Templeton Lecture on Religion and World Affairs

by Dale F. Eickelman

Like the printing press in sixteenth-century Europe, the combination of mass education and mass communications is transforming the Muslim majority world, a broad geographical crescent stretching from North Africa through Central Asia, the Indian subcontinent, and the Indonesian archipelago. In unprecedentedly large numbers, the faithful -- whether in the vast cosmopolitan city of Istanbul, the suburbs of Paris, or in the remote oases of Oman's mountainous interior -- are examining and debating the fundamentals of Muslim belief and practice in ways that their less self-conscious predecessors in the faith would never have imagined.

Buzzwords such as "fundamentalism," and catchy phrases such as Samuel Huntington's "West versus Rest" or Daniel Lerner's "Mecca or mechanization," are of little use in understanding this transformation. They obscure or even

distort the immense spiritual and intellectual ferment that is taking place today among the world's nearly one billion Muslims, reducing it in most cases to a fanatical rejection of everything modern, liberal, or progressive. To be sure, such fanaticism -- not exclusive to Muslim majority societies -- plays a part in what is happening, but it is far from the whole story.

A far more important element is the unprecedented access that ordinary people now have to sources of information and knowledge about religion and other aspects of their society. Quite simply, in country after country, government officials, traditional religious scholars, and officially sanctioned preachers are finding it very hard to monopolize the tools of literate culture. The days have gone when governments and religious authorities can control what their people know, and what they think.

MASS HIGHER EDUCATION AND COMMUNICATION

What distinguishes the present era from prior ones is the large numbers of believers engaged in the "reconstruction" of religion, community, and society. In an earlier era, political or religious leaders would prescribe, and others were supposed to follow. Today, the major impetus for change in religious and political values comes from below. In France, this has meant an identity shift from being Muslim in France to being French Muslim. In Turkey, it means that an increasing number of Turks, especially those of the younger generation, see themselves as European and Muslim at the same time. And some Iranians argue that the major transformations of the Iranian revolution occurred not in 1978-79 but with the coming of age of a new generation of Iranians who were not even born at the time of the revolution. These transformations include a greater sense of autonomy for both women and men and the emergence of a public sphere in which politics and religion are subtly intertwined, and not always in ways anticipated by Iran's formal religious leaders.

If "modernity" is defined as the emergence of new kinds of public space, including new possible spaces not imagined by preceding generations, then developments in France, Turkey, Iran, Indonesia, and elsewhere suggest that we are living through an era of profound social transformation for the Muslim majority world.

Distinctive to the modern era is that discourse and debate about Muslim tradition involves people on a mass scale. It also necessarily involves an awareness of other Muslim and non-Muslim traditions. Mass education and mass communication in the modern world facilitate an awareness of the new and unconventional. In changing the style and scale of possible discourse, they reconfigure the nature of religious thought and action, create new forms of public space, and encourage

debate over meaning.

Mass education and mass communications are important in all contemporary world religions. However, the full effects of mass education, especially higher education, only began to be felt in much of the Muslim world since mid-century and in many countries considerably later. In country after country -- including Morocco, Egypt, Turkey, and Indonesia -- educational opportunities have dramatically expanded at all levels. Even where adult illiteracy rates in the general populace remains high, as in rural Egypt and Morocco, there is now a critical mass of educated people able to read, think for themselves, and react to religious and political authorities rather than just listen to them. Women's access to education still lags behind that of men, although the gap is rapidly closing in many countries.

Both mass education and mass communications, particularly the proliferation of media and the means by which people communicate, have had a profound effect on how people think about religion and politics throughout the Muslim world. Multiple means of communication make the unilateral control of information and opinion much more difficult than it was in prior eras and foster, albeit inadvertently, a civil society of dissent. We are still in the early stages of understanding how different media -- including print, television, radio, cassettes, and music -- influence groups and individuals, encouraging unity in some contexts and fragmentation in others, but a few salient features may be sketched.

At the "high" end of this transformation is the rise to significance of books such as *al-Kitab wa-l-Qur'an* [The Book and the Qur'an] (1992), written by the Syrian civil engineer Muhammad Shahrur. This book has sold tens of thousands of copies throughout the Arab world in spite of the fact that its circulation has been banned or discouraged in many places. Its success could not have been imagined before there were large numbers of people able to read it and understand its advocacy of the need to reinterpret ideas of religious authority and tradition and apply Islamic precepts to contemporary society. On issues ranging from the role of women in society to rekindling a "creative interaction" with non-Muslim philosophies, Shahrur argues that Muslims should reinterpret sacred texts and apply them to contemporary social and moral issues.

Shahrur is not alone in attacking both conventional religious wisdom and the intolerant certainties of religious radicals and in arguing instead for a constant and open re-interpretation of how sacred texts apply to social and political life. Another Syrian thinker, the secularist Sadiq Jalal al-'Azm, debated Shaykh Yusuf al-Qaradawi, a conservative religious intellectual, on Qatar's al-Jazira

Satellite TV in May 1997. For the first time in the memory of many viewers, the religious conservative came across as the weaker, more defensive voice. Al-Jazira is a new phenomenon in Arab language broadcasting because its talk shows, such as "The Opposite Direction," feature live discussions on such sensitive issues as women's role in society, Palestinian refugees, sanctions on Iraq, and democracy and human rights in the Arab world.

Such discussions are unlikely to be rebroadcast on state-controlled television in most Arab nations, where programming on religious and political themes is generally cautious. Nevertheless, satellite technology and videotape render traditional censorship ineffective. Tapes of the al-Jazira broadcasts circulate from hand to hand in Morocco, Oman, Syria, Egypt, and elsewhere. Al-Jazira shows that people across the Arab world, just like their counterparts elsewhere in the Muslim majority world, want open discussion of the issues that affect their lives, and that new communications technologies make it impossible for governments and established religious authorities to stop them.

Other voices also advocate reform. Fethullah G?len, Turkey's answer to media-savvy American evangelist Billy Graham, appeals to a mass audience. In televised chat shows, interviews, and occasional sermons, G?len speaks about Islam and science, democracy, modernity, religious and ideological tolerance, the importance of education, and current events. Religious movements such as Turkey's Risale-i Nur appeal increasingly to religious moderates, and in stressing the link between Islam, reason, science, and modernity, and the lack of inherent clash between "East" and "West," promote education at all levels, and appeal to a growing numbers of educated Turks. Iranian, Indonesian, and Malaysian moderates make similar arguments advocating religious and political toleration and pluralism.

As a result of direct and broad access to the printed, broadcast, and taped word, more and more Muslims take it upon themselves to interpret the textual sources -- classical or modern -- of Islam. Much has been made of the opening up of the economies of many Muslim countries, allowing "market forces" to reshape economies, no matter how painful the consequences in the short run. In a similar way, intellectual market forces support some forms of religious innovation and activity over others. In Bangladesh, women's romance novels, once a popular secular specialty, now have their Islamic counterparts, making it difficult to distinguish between "Muslim" romance novels and "secular" ones.

The result is a collapse of earlier, hierarchical notions of religious authority based on claims to the mastery of fixed bodies of religious texts. Even when there are state-

appointed religious authorities -- as in Oman, Saudi Arabia, Iran, and Egypt -- there no longer is any guarantee that their word will be heeded, or even that they themselves will follow the lead of the regime. No one group or type of leader in contemporary Muslim societies possesses a monopoly on the management of the sacred.

THE EMERGING PUBLIC SPHERE

Without fanfare, the notion that Islam should be the subject of dialogue and civil debate is gaining ground. This new sense of public space is shaped by increasingly open contests over the use of the symbolic language of Islam. Increasingly, discussions in newspapers, on the Internet, on smuggled cassettes, and on television cross-cut and overlap, contributing to a common public space.

New and accessible modes of communication have made these contests increasingly global, so that even local issues take on transnational dimensions. The combination of new media and new contributors to religious and political debates fosters an awareness on the part of all actors of the diverse ways in which Islam and Islamic values can be created. It feeds into new senses of a public space that is discursive, performative, and participative, and not confined to formal institutions recognized by state authorities.

Two cautions are in order. The first is that an expanding public sphere need not necessarily indicate more favorable prospects for democracy, any more than civil society necessarily entails democracy. Authoritarian regimes are compatible with an expanding public sphere, although an expanded public sphere offers wider avenues for awareness of competing and alternate forms of religious and political authority. Nor does civil society necessarily entail democracy, although it is a precondition for democracy.

Publicly shared ideas of community, identity, and leadership take new shapes in such engagements, even as many communities and authorities claim an unchanged continuity with the past. Mass education, so important in the development of nationalism in an earlier era, and a proliferation of media and means of communication have multiplied the possibilities for creating communities and networks among them, dissolving prior barriers of space and distance and opening new grounds for interaction and mutual recognition.

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Articles of Related Interest

As Professor Eickelman points out, the Muslim majority world stretches from North Africa through Central Asia, the Indian subcontinent, and the Indonesian archipelago. Here are some of our articles that touch on all of those areas:

Multiculturalism in the Classical Islamic World, Bruce B. Lawrence, Footnotes, 9/99
The Coming Transformation of the Muslim World, Dale Eickelman, FPRI Wire, 8/99
Israel Picks a General...and a General Picks a Government, Harvey Sicherman, Peacefacts, 7/99
The Market for Central Asian Legitimacy, Stephen Winterstein, Orbis, Summer 1999
Afghanistanding, Adam Garfinkle, Orbis, Summer 1999
Don't Arm the KLA, Michael Radu, FPRI E-Note, 4/6/99
Bombs for Peace?: Misreading Kosovo, Michael Radu, FPRI E-Note, 3/26/99
The PKK Strategy in Europe to Place Turkey on Trial, Michael Radu, FPRI E-Note, 2/26/99
The Capture of Abdullah Ocalan and the Future of Counter-Terrorism, Michael Radu, FPRI E-Note, 2/18/99
After King Hussein, Adam Garfinkle, FPRI E-Note, 2/8/99
Hussein Bin Talal: Soldier-King, Harvey Sicherman, Peacefacts, 2/99
The Asian Miracle, the Asian Contagion, & the U.S.A., FPRI Wire, Theodore Friend, 12/98
The U.S. and Iraq: What's Next, Adam Garfinkle, FPRI E-Note, 11/20/98
A Kurd's Way, Adam Garfinkle, The New Republic, 12/28/98
Who is Abdullah Ocalan?, Michael Radu, FPRI E-Note, 11/16/98The "Camp Wye Accords," Harvey Sicherman, Peacefacts, 11/98
Dangerous Incoherence in Kosovo, Michael Radu, FPRI E-Note, 10/21/98
Ending the India-Pakistan Feud Starts With Kashmir, Shirin Tahir-Kheli, Herald Tribune, 9/23/98
Who Wants a Greater Albania?, Michael Radu, FPRI E-Note, 7/10/98
How to Respond to Asia's Nuclear Arms Buildup, John H. Maurer, FPRI E-Note, 6/23/98
Scared Senseless? The South Asian Nuclear Tests, Avery Goldstein, FPRI

E-Note, 6/5/98

Indonesia in Flames, Theodore Friend, Orbis, Summer 1998

The Containment of America, Harvey Sicherman, Orbis, Summer 1998

Liening on Saddam, Adam Garfinkle, The Washington Quarterly, Summer 1998

The Showdown that Was... and Wasn't, Harvey Sicherman and Adam Garfinkle, Peacefacts, 5/98

Teaching About Israel at 50, Adam Garfinkle, Footnotes, 5/98

Bosnia: A Summing Up, Robert Strausz-Hup?, FPRI E-Note, 2/11/98

The Holy War Tradition in Islam, Emmanuel Sivan, Orbis, Spring 1998

Iraq: What to Do and What Not to Do, Adam Garfinkle, 2/6/98

The Iranian Gorbachev: Khatami's "New Thinking," Harvey Sicherman, FPRI E-Note, 1/13/98

India at 50: The State of the Nation, Summary of a Talk by Mani Shankar

Aiyar, FPRI Wire, 1/98

Indonesia on Fire -- and Washington All Wet?, Theodore Friend, FPRI Wire, 11/97

The Future of Saudi Arabia: A Conversation with Hani A. Z. Yamani, Harvey Sicherman, FPRI Wire, 11/97

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 17:24:46.00

SUBJECT: Re: Monday Meeting

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

ok. will do. thanks

Robert Z. Lawrence
07/16/99 05:18:43 PM
Record Type: Record

To: Audrey Choi/CEA/EOP@EOP
cc:
Subject: Monday Meeting

I will be out of town on Monday. You may want to attend the deputies meeting. The trade numbers come out on Tuesday morning, Housing Starts on Wednesday and Steel imports on Thursday.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 14:40:31.00

SUBJECT: Re: Market memo

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Ryan, please do this ASAP and I'll talk to you around 5 to arrange the signing

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 11:05:43.00

SUBJECT: Phone Message from Nicole

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: NicoleCompany: Phone: at home 301-718-9666FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 10:00:49.00

SUBJECT: Ag Policies.

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

I have good material on international ag policies now, but need some information on the current state of ag policy in particular. Do you have something? Maybe a couple of recent speeches by Glickman will do.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:16-JUL-1999 16:58:12.00

SUBJECT: Farewell, for now

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [UNKNOWN])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Aaron D. Tracy (CN=Aaron D. Tracy/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

CC: richter@phoenix.Princeton.EDU (richter@phoenix.Princeton.EDU [UNKNOWN])
READ:UNKNOWN

CC: slscott@alumni.princeton.edu (slscott@alumni.princeton.edu [UNKNOWN])
READ:UNKNOWN

CC: mjolin@ashoka.org (mjolin@ashoka.org [CEA])
READ:UNKNOWN

CC: quindi@usa.net (quindi@usa.net [UNKNOWN])
READ:UNKNOWN

CC: ngordon@kuznets.harvard.edu (ngordon@kuznets.harvard.edu [UNKNOWN])
READ:UNKNOWN

CC: mattm@avenuea.com (mattm@avenuea.com [UNKNOWN])
READ:UNKNOWN

CC: mcraNEY@mit.edu (mcraNEY@mit.edu [UNKNOWN])
READ:UNKNOWN

CC: hshelans@fcc.gov (hshelans@fcc.gov [UNKNOWN])
READ:UNKNOWN

CC: jeffrey_frankel@harvard.edu (jeffrey_frankel@harvard.edu [UNKNOWN])
READ:UNKNOWN

CC: Zac_CANDELARIO@sfo.marsandco.com (Zac_CANDELARIO@sfo.marsandco.com [UNKNOWN])
READ:UNKNOWN

CC: dfelman@leland.stanford.edu (dfelman@leland.stanford.edu [UNKNOWN])
READ:UNKNOWN

CC: Steve.Polasky@orst.edu (Steve.Polasky@orst.edu [UNKNOWN])
READ:UNKNOWN

CC: nouriel.roubini@do.treas.gov (nouriel.roubini@do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: 59bamsey@cua.edu (59bamsey@cua.edu [UNKNOWN])
READ:UNKNOWN

CC: blank@umich.edu (blank@umich.edu [UNKNOWN])
READ:UNKNOWN

CC: huang@nber.org (huang@nber.org [UNKNOWN])
READ:UNKNOWN

CC: creimers@hunter.cuny.edu (creimers@hunter.cuny.edu [UNKNOWN])
READ:UNKNOWN

CC: rpguiteras@amherst.edu (rpguiteras@amherst.edu @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:

Dear CEA colleagues -

It has been a privilege to work with all of you at the CEA. Years are scarce (like everything else), but I can think of no more satisfying way to spend one than working here. Thanks to all of you for making it so interesting, enlightening and fun.

You can always reach me at rpguiteras@amherst.edu . In September, I will start at Bain and Company in Boston, where my e-mail will be raymond.guiteras@bain.com . Anyone who is interested in monitoring my struggle to resist the song of the Expense Account Sirens is welcome to write. Furthermore, I understand that it is the obligation of every economist to pass through Cambridge at least once a year, so please let me know if you're giving a paper or attending an interesting

conference...

Thanks again,

Raymond

ps - special thanks to Audrey and

<http://www.webcom.com/shownet/medea/bulfinch>

for fact-checking the Ulysses reference

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1999 13:12:25.00

SUBJECT: if anyone sees Doug Elmendorf, please have him call me or stop by as soon as possible

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [UNKNOWN])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Aaron D. Tracy (CN=Aaron D. Tracy/OU=CEA/O=EOP [UNKNOWN])
READ:UNKNOWN

CC: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 21:01:57.00

SUBJECT: Re: China

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Joe, there is lots of interest from the VPs office about China and trading. Where do we stand?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 14:10:24.00

SUBJECT: Phone Message from Lael Brainard

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: Lael Brainard Company: Phone: x65353 FAX: Message: She'd like to talk to you before the 5:30 meeting if possible.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 16:25:37.00

SUBJECT: Phone Message from Nicole

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: NicoleCompany: Phone: FAX: Message: She and the kids are at a movie and will be free at about 6:30 p.m.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 09:49:34.00

SUBJECT: Morning Meeting for 07/19/99

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/19/99
09:49 AM -----

Medley_Global_Advisors@medleyadvisors.com
07/19/99 08:56:31 AM

Record Type: Record

To:

cc:

Subject: Morning Meeting for 07/19/99

NOTICE: Forwarding this proprietary email report constitutes violation of
United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: mmjuly19.pdf)

- mmjuly19.pdf

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

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1714

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14 0 obj
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/BaseFont /Garamond,Bold
/FirstChar 32
/LastC
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41
458 416 458 458 458 458 458 458 250 250 666 666 666 416
916 666 66
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666 916 708 666 666 375 541 375 583 500
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===== END ATTACHMENT 1 =====

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 20:58:24.00

SUBJECT: Phone Message from Nicole

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: NicoleCompany: Phone: FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 11:52:03.00

SUBJECT: G-7 Special Report -- Fed: The Moving Target

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/19/99
11:51 AM -----

Medley_Global_Advisors@medleyadvisors.com
07/19/99 10:40:55 AM
Record Type: Record

To:
cc:
Subject: G-7 Special Report -- Fed: The Moving Target

NOTICE: Forwarding this proprietary email report constitutes violation of
United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: srjuly19.pdf)

- srjuly19.pdf

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D72]ARMS24106010Y.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

G7 Special Report

Fed: The Moving Target

July 19, 1999

Last Friday afternoon, Federal Reserve Board members met to discuss the upcoming Humphrey-Hawkins testimony of Chairman Greenspan. The conclusion of that meeting drew an even sharper line between the two camps currently jostling for dominance within the FOMC: The "preemptive" camp led by Chairman Greenspan lost some of the momentum they had coming out of the strong spring growth numbers and the April CPI shock, while the "reactive" camp -- which felt burned by the overwhelming rate hike pressure in May and June -- has pushed back strongly as the data fell back in line with their basic thesis. **Thus the Humphrey-Hawkins testimony -- which has to reflect the FOMC view broadly defined -- will portray a Fed that worries about growth continuing to run too strong, but also one that is once more respectful of rising productivity and the barrage of benign data since the June rate hike.**

The bottom line is likely to be a speech that conveys a strong sense that the Fed is ready to raise rates if it gets any cover, but which throws the timing of that next rate hike in doubt. If the data support, the hike could come as early as August 24. In other words, it will not be in line with the straight-out hawkish speeches we saw starting with the April Chicago lecture and ending with the June 17 JEC speech, because it has to reflect the Board's collective opinion, not the Chairman's personal concerns.

We are in serious roller coaster territory. This is not because the Fed is "schizophrenic" or because individual FOMC members are shifting views repeatedly, it is because the splits between the camps we have outlined in detail have been deepened by internal battles spawned by the May-June push for rate hikes. The result is that the momentum that carried a unified Fed behind the May bias statement has stopped and the battle for control of Fed policy has re-emerged. **The preemptive crowd is still in the majority and still represents the most powerful wing of the Fed, but Greenspan has never been a Chairman who is willing to force decisions through without strong consensus; he will take dissent, but he does not want serious divisions.** Unfortunately that is just what he has now. In the past week we have heard from FOMC voting members statements that range from, "we need a rate hike in August and another in October, just as a precaution against the stock market bubble," to "there is no need for a rate hike in the foreseeable future."

Clearly the sense of certainty that the preemptive crowd felt in the late spring has faded, but it has not disappeared. The balance of forces and momentum is such that it would only take one serious number to send the Fed back toward a nearly certain August rate hike. Nothing in the numbers so far meets that test, but because the bar is relatively low traders will need to be on their toes. As the sands shift inside the Fed,

so they will shift for markets. That means a whippy, frustrating period ahead.

The Shifting Sands

The seeming inconsistency between this position and the unmitigated hawkishness of the spring speeches reflects the struggle underway between Fed factions that we laid out in detail before the June FOMC meeting (Fed Taxonomy, June 22). Remember, the existence of those factions was the primary reason we gave for believing a decision to adopt a neutral bias was possible at that meeting. When the full history of the spring and early summer is written it will show the camps re-forming into powerful blocs by late March as the data and world events made it obvious the 75 basis points in easing was no longer necessary. Although that sentiment began to emerge in the early spring, even as Chairman Greenspan was shifting toward the preemptive camp in public and private, the divisions remained and there was not sufficient momentum to force a shift back to the tightening bias that had prevailed until August last year.

The April CPI changed all that. It gave the preemptive crowd exactly the shocker they were warning would emerge and left the reactive crowd unable to resist the pressure for a bias. That's when the new immediate announcement policy, coupled with Greenspan's determination to take a very public hawkish stance, conspired to push the public stance of the Fed from perceived neutrality to a guaranteed June rate hike. The doves on the board were angry at being forced into agreeing to a rate hike they still believed was unnecessary. The result was a June meeting that was one of the most contentious in recent memory.

Much of the time was spent discussing the bias policy and the impact of immediate announcements. Because the bias became the lightning rod for the discussion, three central agreements emerged about the bias. First, there was full agreement that the bias to be announced at the end of the meeting would apply only to the period between meetings and not to the next meeting itself; second, that the bias should reflect their decision to revert back to the tradition of following a rate hike with a move to neutral bias for the inter-meeting period; third, to insert a strongly preemptive final sentence designed to send the signal that the trigger was still cocked for August 24 if the data supports a rate hike.

Of course, things didn't work out exactly as the Fed planned. **In a recent round of extensive interviews at all levels in the Fed, almost everyone concluded that the June meeting was "not our finest hour," or as one Fed official put it, "there will be plenty of I-told-you-so's at the August meeting."** The goal now is to get back on track and to re-emerge with a more coherent and sustained message delivered in more traditional Federal Reserve ways. There is also now an active debate about what to do with the bias announcement policy, revolving around current suggestions to return to a "no announcement" bias policy or even to drop the bias process entirely (and let Wim deal with it).

The shifting signals on the Fed's policy stance, reflecting the intense competition between hawk and dove approaches to economic data, has complicated that process and will continue to complicate it until one side has clearly won. One of the reasons there have

been such widely varied reports from FOMC discussions is that the camps are deeply split on a matter of faith rather than economic fact. Whether the world has changed or not is impossible to prove, and after a full round of discussions, we can tell you that if we had reported back to you after each conversation, it would have been a very erratic few days for us. Both sides are deeply convinced they will be proven right and as the data gives one side or the other the upper hand, stories begin to leak out from the ascendent side.

So, the Fed remains data-driven and ready to move if they get the data. Clearly the preemptive camp has been rattled by the string of incredibly benign inflation data and internal predictions from Fed staff that productivity growth accelerated this quarter. However, because the Chairman himself has laid out the strongest case for preemptive action based on real final demand, **it will only take a single number to put the preemptive crowd back in the driver's seat as the April CPI makes clear.**

Mining The Data For Inflation

Searching for those data is now the main focus of the preemptive school in the run-up to August's FOMC meeting. They want to get the rate hikes done and in the bag if at all possible. As one main proponent of this school put it to us, "The thing we fear the most is that we sit back now and then get a string of 0.3 and 0.4 inflation numbers just as next year's election campaign gets under way in earnest. Then we have to move at the worst possible time. Better to do it now and get growth down."

That is why you have seen increasing discussion about inflation, despite the benign headline numbers. **One line of argument you have seen -- and will see more of -- is that "real interest rates are too low."** This thesis is being floated by very senior officials and the conclusion that real rates are 40 basis points too low is provocatively close to the 50 basis points that would take back last year's easings. **The second line of argument is that inflation is already in the pipeline, even though it is not showing up in the headline numbers.** They point out that raw and intermediate goods are showing significant inflation (raw PPI is up 10% so far this year and intermediate up 5%) and needs to be dealt with now.

The doves don't buy either of those arguments, of course. Who knows where real interest rates should be (or even how best to calculate them), they say. On the inflation pipeline thesis, they point out that we've been through three phases of inflation at the raw and intermediate level in the past five years with no impact except more technological investments and slightly lower margins.

None of that changes the fact that the most powerful wing of the Fed remains convinced that at least one more and perhaps two more rate hikes should be made as a precaution, just to return to the real interest rate levels of last year. Whether they get the necessary numbers before August is now anyone's guess given the benign data to date. But there is little doubt they do not have the ammunition right now. The doves are feeling justified and are ready to talk about it. The hawks are waiting, knowing that one piece of data that shows growth clearly continuing and

prices starting to inch forward will be enough. The sense of confidence among the doves of a year ago is less and the belief among the hawks that the world is on their side is greater. Now all they need is the numbers to prove it.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 08:57:07.00

SUBJECT: Lisa Branch and Vickie Rasin

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Annual Leave today - Lisa Branch

Sick Leave today - Vickie Rasin

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-JUL-1999 09:35:15.00

SUBJECT: Staff Meeting

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
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TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
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TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
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TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
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TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
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TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
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TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
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TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

The staff meeting is scheduled for Tuesday, July 20 at 9:30 a.m. so that the new staff coming on board will be able to attend.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 09:28:08.00

SUBJECT: staff meeting is starting now. please join us.

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
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TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
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TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 13:12:54.00

SUBJECT: IRUPs

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Robert,

Do you have a minute this afternoon to go over some possible international
roundup topics? Thanks - John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 15:46:50.00

SUBJECT: Russia meeting contents

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
Robert:

I spoke with Rob Westcott, who has promised to send an agenda/background note/whatever by later this afternoon, if at all possible (he's getting it from Commerce, I believe).

But the main issue as I understand it seems to be a discussion of trade disputes, including, in particular, a discussion of whether Russia is a "non-market economy" for the purposes of antidumping and so forth.

Next week there are bilateral meetings between the Russian Prime Minister and his entourage of ministers and Gore; this is supposed to be part of an ongoing "bilateral commission" between the VP and the Prime Minister. Because of Russia's politics, it hardly ever happens, even though it's supposed to happen twice a year. Leon Firth is taking a key role in arranging next week's meetings.

Apparently, Russia is expected to raise the "non-market" issue at these meetings, and would like to be designated a market economy. (Currently, Poland is the only economy designated as a market economy). It would help Russia in a couple ways, but hurt them in a couple others, so the issue is not clear. Commerce is writing a memo to lay out the pros and cons.

Rob hopes to have the memo/agenda/etc. this evening or by first thing tomorrow.

John

----- Forwarded by John G. Fernald/CEA/EOP on 07/20/99
03:38 PM -----

Sharon H. Yuan
07/20/99 03:27:52 PM
Record Type: Record

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

cc:

Subject: Russia meeting

Due to some scheduling difficulties, the small group meeting on Russia will now be at 11:30 am in Room 231 on Thursday. Thanks.

Message Sent

To:

Richard M. Saunders/OVP@OVP

donna_jackson@ita.doc.gov

OBERDORFER_AMY@ustr.gov

alexandrowiczae@state.gov

Carolyn T. Wu/WHO/EOP@EOP

Mary Ann T. Silva/NSC/EOP@EOP

Lisa D. Branch/CEA/EOP@EOP

John G. Fernald/CEA/EOP@EOP

norris-ronetta@dol.gov

Robert F. Wescott/OPD/EOP@EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 09:34:47.00

SUBJECT: Deputies Meeting on GMOs, Wed, 7/21, 5:30pm

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

FYI. If there is a WH Deputies mtg, this mtg will conflict with it.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/20/99

09:33 AM -----

Sharon H. Yuan
07/19/99 10:24:27 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Bruce McNamer/OPD/EOP@EOP, Clifford J. Gabriel/OSTP/EOP@EOP
Subject: Deputies Meeting on GMOs

Attached is the agenda for the deputies meeting on GMOs on Wednesday.

Thanks.

Message Sent

To:

Lisa D. Branch/CEA/EOP@EOP
John G. Fernald/CEA/EOP@EOP
Carolyn T. Wu/WHO/EOP@EOP
donna_jackson@ita.doc.gov @ inet
Marilyn L. Scott-Perez/NSC/EOP@EOP
Donna Dejban/NSC/EOP@EOP
Betty J. Fountain/OSTP/EOP@EOP
Andrew F. Schneider/OVP@OVP
Ann E. Woolston/OVP@OVP
Richard M. Saunders/OVP@OVP
lenora.cully@do.treas.gov @ inet
andrew.baukol@do.treas.gov
einhellig_wendy@ustr.gov@INET@VAXGTWY
chamm@usda.gov @ inet
kblythe@usda.gov @ inet
charles_ludolph@ita.doc.gov @ inet
alexandrowiczae@state.gov

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D70]ARMS25245810F.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Deputies Meeting
GMOs- Domestic Regulatory Agenda
July 21, 1999, 5:30 – 6:30 pm
Room 180

Agenda

- I. Overview of US regulation/risk assessment for agriculture biotechnology – status and possible actions to address any gaps, public concerns, etc.
 - FDA
 - USDA/APHIS
 - EPA
- II. Inter-agency coordination for proposed new processes/actions and on public outreach

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 10:41:48.00

SUBJECT: Phone Message from John Fernald

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: John FernaldCompany: Phone: Grp list #49FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 13:58:51.00

SUBJECT: WTO DEPS MEETING RESCHEDULED

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Victoria: Robert will be in New York on Thurs, 7/22.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/20/99
01:58 PM -----

Sharon H. Yuan
07/20/99 01:43:17 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: D Holly Hammonds/OPD/EOP@EOP, Matthew P. Schaefer/NSC/EOP@EOP
Subject: WTO DEPS MEETING RESCHEDULED

The deputies meeting, originally scheduled for today, has been rescheduled for Thursday at 11:30 am, Thursday, July 22 in Room 180. Principals plus one only are welcome. Please let me know who will be attending.

Thanks.
Sharon

----- Forwarded by Sharon H. Yuan/OPD/EOP on 07/20/99
01:40 PM -----

Sharon H. Yuan
07/20/99 09:54:09 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: WTO Deputies Meeting TODAY ONLY

THE DEPUTIES MEETING ON WTO TODAY, JULY 20, 1999 AT 5:00 PM IN ROOM 180
HAS BEEN POSTPONED AND WILL BE RESCHEDULED FOR THURSDAY. THANKS.

SHARON

Message Sent

To:

Lisa D. Branch/CEA/EOP@EOP
donna_jackson@ita.doc.gov @ inet
suzette_right@ita.doc.gov @ inet
norris-ronetta@dol.gov @ inet
alexandrowiczae@state.gov @ inet
lenora.cully@do.treas.gov @ inet
andrew.baukol@do.treas.gov @ inet
OBERDORFER_AMY@ustr.gov @ inet
Andrew F. Schneider/OVP@OVP
Carolyn T. Wu/WHO/EOP@EOP
Rebecca L. Walldorff/WHO/EOP@EOP
kblythe@usda.gov @ inet
D Holly Hammonds/OPD/EOP@EOP
Matthew P. Schaefer/NSC/EOP@EOP
Richard M. Samans/OPD/EOP@EOP
corless.hamm@usda.gov @ inet
chamm@usda.gov @ inet
Pieter J. Boelhouwer/OVP@OVP

Message Sent

To:

Lisa D. Branch/CEA/EOP@EOP
donna_jackson@ita.doc.gov @ inet
suzette_right@ita.doc.gov @ inet
norris-ronetta@dol.gov @ inet
alexandrowiczae@state.gov @ inet
lenora.cully@do.treas.gov @ inet
andrew.baukol@do.treas.gov @ inet
OBERDORFER_AMY@ustr.gov @ inet
Andrew F. Schneider/OVP@OVP
Carolyn T. Wu/WHO/EOP@EOP
Rebecca L. Walldorff/WHO/EOP@EOP
kblythe@usda.gov @ inet
D Holly Hammonds/OPD/EOP@EOP
Matthew P. Schaefer/NSC/EOP@EOP
Richard M. Samans/OPD/EOP@EOP
corless.hamm@usda.gov @ inet
chamm@usda.gov @ inet
Pieter J. Boelhouwer/OVP@OVP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 10:46:18.00

SUBJECT: Thursday's meetings--not much info yet...

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Robert:

Sharon says that Rob Westcott is working on the agenda on Russia. I left him a message asking for a brief heads-up on the general topics. The WTO meeting will be at a completely different time from the Russia meeting (I guess at a time to be determined?). The agenda will in part depend on what gets done at the other meetings this week, if I followed her right.

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 14:20:18.00

SUBJECT: Delta shuttle leaves National on the 1/2 hr

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 16:56:55.00

SUBJECT: NEW TIME: Briefing by Commerce Staff on the Application of Dumping

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

Records Management@EOP (Records Management@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Sorry, the briefing has to be changed to 2pm vs. 3 (on 7/23).

poc: Andrew Stevens, Commerce Import Admin, 482-1780

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 14:00:09.00

SUBJECT: Phone Message from Dave Smith

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: Dave SmithCompany: AFL-CIOPhone: 637-5369FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 14:32:51.00

SUBJECT: Re: IRUPs

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

See me ASAP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 16:37:15.00

SUBJECT: Briefing by Commerce Staff on the Application of Dumping

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Per Robert's request, Under Secy David Aaron (Commerce) has arranged to have 4 to 5 of his people come to CEA to give a briefing on application of dumping. The mtg will be held on Fri, 7/23, at 3pm, Janet's ofc.

Please plan to attend this mtg.

poc: Andrew Stevens, Commerce Import Admin, 482-1780

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 13:54:59.00

SUBJECT: FYI: Janet on OECD news and questions

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Hi Robert and Steve,

FYI: here are Janet's remarks in response to the two questions John Weeks had. I'm forwarding them along to him in Paris.

Best,

-Ryan

----- Forwarded by Ryan D. Edwards/CEA/EOP on 07/20/99
01:54 PM -----

Janet L. Yellen

07/20/99 01:41:15 PM

Record Type: Record

To: Ryan D. Edwards/CEA/EOP@EOP

cc:

Subject: Re: OECD news and questions

Could you let John know that:

(1) I have talked with both Ignazio and Ambassador Bondurant about Martin's succeeding me as EPC Chair. I have heard no objection whatever to this strategy and have emphasized that this is important to us. Especially given that WP-3 is unlikely to be headed by an American and that it is long-standing tradition for the CEA Chair to chair EPC, it is important that Martin be appointed to the job. If Martin is either confirmed by the Senate or given a recess appointment by the President, he will hold the title of CEA Chair by the next EPC meeting in November and there should be no reason at all that Martin is not elected to the Chair at the November meeting. This would coincide with past precedent.

(2) On climate change, I attended a meeting with Thorvald Moe and others at the Ministerial and we agreed to a meeting of appropriate economics and

environment "Senior Officials" just after the WP-3 meeting in September. The meeting would concern climate change issues and be an opportunity to exchange views on key substantive issues prior to the next COP meeting, but would not be a "negotiating session." We decided that it was inadvisable to have Economics and Environment Ministers attend the meeting. Instead, we should have each country designate a senior economics and environment official with significant involvement in climate change policy to attend. From the U.S., Robert Lawrence, who handles climate change at the CEA and will be at WP-3 in any event will be going and is already slated to be a lead discussant on one of the topics. We do not yet know who will attend on the environmental side.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 16:57:43.00

SUBJECT: Weds Deps

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

You definitely have a conflict--NEC mtg on GMOs.

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/20/99

04:56 PM -----

LESLIE

BERNSTEIN

07/20/99 04:55:51 PM

Record Type: Record

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

cc:

Subject: Weds Deps

There will be a Deputies Mtg on Wednesday at 5:30pm in the Roosevelt Room.

Thanks

Message Sent

To:

Sara M. Latham/WHO/EOP@EOP

Barry J. Toiv/WHO/EOP@EOP

Jennifer M. Palmieri/WHO/EOP@EOP

Anne F. Donovan/WHO/EOP@EOP

Linda Ricci/OMB/EOP@EOP

Sharon H. Yuan/OPD/EOP@EOP

Kris M Balderston/WHO/EOP@EOP

Tracey E. Thornton/WHO/EOP@EOP

Dario J. Gomez/WHO/EOP@EOP

Linda L. Moore/WHO/EOP@EOP

Dorian V. Weaver/WHO/EOP@EOP

Beverly J. Barnes/WHO/EOP@EOP
Christopher C. Jennings/OPD/EOP@EOP
John Dankowski/WHO/EOP@EOP
Susan L. Hazard/WHO/EOP@EOP
Lisa D. Branch/CEA/EOP@EOP
Fred DuVal/WHO/EOP@EOP
Shirley S. Sagawa/WHO/EOP@EOP
Donna Dejbán/NSC/EOP@EOP
Francine P. Obermiller/CEA/EOP@EOP
Cathy L. Millison/NSC/EOP@EOP
Glyn T. Davies/NSC/EOP@EOP
Jennifer M. Luray/WHO/EOP@EOP
Kelley L. O'Dell/WHO/EOP@EOP
Jeffrey M. Smith/OSTP/EOP@EOP
Sean P. Maloney/WHO/EOP@EOP
Todd A. Bledsoe/WHO/EOP@EOP
Janis F. Kearney/WHO/EOP@EOP
Cheryl D. Mills/WHO/EOP@EOP
Skye S. Philbrick/WHO/EOP@EOP
Patricia Solis-Doyle/WHO/EOP@EOP
Martha Foley/WHO/EOP@EOP
Douglas J. Band/WHO/EOP@EOP
Beth A. Viola/CEQ/EOP@EOP
Paul D. Glastris/WHO/EOP@EOP
Charles J. Payson/WHO/EOP@EOP
Anne Whitworth/WHO/EOP@EOP
June G. Turner/WHO/EOP@EOP
Devorah R. Adler/OPD/EOP@EOP
Richard L. Siewert/WHO/EOP@EOP
David R. Goodfriend/WHO/EOP@EOP
Adrienne C. Lavalley/WHO/EOP@EOP
Thomas D. Janenda/WHO/EOP@EOP
Erica R. Morris/WHO/EOP@EOP
Mary M. Chuckerel/OMB/EOP@EOP
Sylvia L. Parsons/WHO/EOP@EOP
Joshua Gotbaum/OMB/EOP@EOP
Courtney O. Gregoire/OPD/EOP@EOP
Laura Efurd/WHO/EOP@EOP
Mark F. Lindsay/WHO/EOP@EOP
Paul J. Weinstein Jr./OPD/EOP@EOP
David Vandivier/OMB/EOP@EOP
Michele Ballantyne/WHO/EOP@EOP
Shannon Mason/OMB/EOP@EOP
Daniel Sakura/CEQ/EOP@EOP
Mara E. Rudman/NSC/EOP@EOP
Wendy E. Gray/NSC/EOP@EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 11:00:16.00

SUBJECT: Will be away Friday, 7/30

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
Hello everyone,

I plan to take annual leave on Friday, July 30th. Our current plan on the market memo is for me to get Steve Lin up to speed on especially the charts but also the text, with Steve Braun being the go-to guy who can also write the text.

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 12:18:17.00

SUBJECT: OECD news and questions

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Hi everyone,

I just spoke with John Weeks, our Minister-Counsellor at the US Mission to the OECD, and he asked two questions concerning the transition here at CEA.

1. He was wondering what kind of plans there were for chair of the EPC. I explained that it was my impression Martin Bailey would like to take up the torch.

John pointed out, however, that protocol would probably dictate some complications during the next EPC meeting:

A. One of the vice-chairs, Mr. Bogaert of Belgium or Mr. Suesser of Germany, would probably preside at the first post-Janet meeting

B. Some committees in the past have elevated a vice-chair to the level of chair following the resignation of the chair; so the question of who would be nominated to succeed Janet may well be open.

John has no notion of what other countries feel about this, and he also wasn't sure if Janet and Ignazio Visco had perhaps talked about these issues.

2. John was also wondering what the prospects were for the bringing together of environmental and economics officials to discuss climate change. He felt that Janet was seen as the driving force, or at least one of the forces, behind achieving such a meeting, and the question is what will happen to the initiative now that Janet, Jeff Frankel, and Becky Blank are out of the picture, although Thorvald Moe is still around of course. Again, if there were discussions behind the scenes, John was interested in knowing what they were.

On the WP-3 chair, John felt that Treasury's Caroline Atkinson and Tim Geithner were in the process of hashing out the possession of the chair, within a larger context of who gets what position within the G-7. My counterpart at Treasury is on vacation temporarily.

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JUL-1999 11:00:21.00

SUBJECT: IRUPs.

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Stories in both the FT on Monday and Journal on Tuesday on the Change in China's position on the Yuan are noteworthy.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 13:51:16.00

SUBJECT: Emerging Markets Special Report: Yuan Devaluation On Beidaihe Agenda, But Not At the Top

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/21/99

01:51 PM -----

Medley_Global_Advisors@medleyadvisors.com

07/21/99 12:35:14 PM

Record Type: Record

To:

cc:

Subject: Emerging Markets Special Report: Yuan Devaluation On Beidaihe
Agenda, But Not At the Top

NOTICE: Forwarding this proprietary email report constitutes violation of
United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: srjul21.pdf)

- srjul21.pdf

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D85]ARMS29814530M.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

Emerging Markets Special Report

Yuan Devaluation On Beidaihe Agenda, But Not At the Top

July 21, 1999

Our model for China's yuan devaluation decision has always been that nothing of any importance would happen until staff preparations began for the all-important Beidaihe leadership retreat that begins in late July. That preparation has begun and **there will be serious and open discussions about the prospect of devaluation for the yuan during these meetings**. For the first time, **China's leaders will hear a full discussion of the costs and the benefits of devaluation, including its impact on the Hong Kong dollar**. There is little doubt that Chinese leaders are in the midst of lowering the bar on both the political and economic fronts for a yuan devaluation, but it is also clearly true that **leaders want to play out their domestic policy options and wait for more economic data before any final decision**. This continues to push the final devaluation decision off until very late this year or early next year. Devaluation will be increasingly likely if economic data continue to show the kind of marked deterioration so far this year.

Even more importantly, you should know that WTO membership for China -- if it is approved -- could become the event that triggers the yuan devaluation since many of the subsidy practices currently enjoyed by Chinese exporters would be illegal under the new WTO/GATT regime.

What this means is that the talk in public and private of a potential devaluation will continue to accelerate in the coming weeks and that is a tradeable event. However, a decision has not yet been made and it is still very likely that no decision to devalue will be made until the new year when WTO membership becomes official and additional data becomes available. Much like the Federal Reserve decision, the pace and magnitude of the devaluation decision in China will increasingly be data driven. It is crucial that senior officials inside the Chinese government have begun to frame exports as "a drag" on the Chinese economy. This is a significant shift from the previous "exports are not strategic" stance and indicates a serious distancing process underway.

As recently as a few months ago, they insisted that what is important about trade is the cost of exports and China's international balance of payment position. More generally, trade had been either a "locomotive to the economy" or an insignificant factor as China moved to focus on domestic demand after the outbreak of the financial crisis. For the first time in years, Chinese leaders now feel that declining exports have a "constraining effect" on the economy. This, plus the surge in imports, has led some people to argue that the best solution is devaluation. Moreover, export industries are actively lobbying for it. Once the leaders feel so desperate about keeping the economy growing that they feel anything that can be done to eke out growth should be done, they might well devalue. It should surprise nobody that the pledges not to devalue are no longer vehemently restated.

The trigger of the latest round of RMB concerns is a combination of a worsening economic situation as shown in just released data and a more lively discussion about deval in the state-owned press. The fact the Chinese officials suddenly went quiet with their "no deval" pledges is an indication of how serious the current discussions have become. On the other hand, traders who believe the recent spate of press articles in favor of devaluation are a government trial balloon are wrong. One official kidded us that, "The market has been preparing for a deval for over a year now, so they don't need any signals from us."

Everywhere one turns, one can easily see serious concerns about the consequences of devaluation even at the staff level. This issue will be fully discussed at the Beidaihe retreat or in Beijing (because of the crises, there may not even be a plenary meeting at the fabled sea resort this summer). Even if this exchange policy clears that meeting, it is possible that leaders could

very well give it a few more months before it is put to work. They are still observing the economic situation over the next few months. Devaluation, while more likely, is not a foregone conclusion.

OBSTACLES TO DEVALUATION

While devaluation is increasingly possible, the discussion between staff members who have begun to favor such a plan and top political leaders who have not yet begun the debate among themselves will focus on a few key questions. More important than market participants realize are the potential costs to devaluation that Chinese leaders still see. The answer to most of these questions is not yet clear in their minds.

First, **many continue to feel that the effect of devaluation will be of dubious value to the Chinese economy.** Most of these concerns are not new. So much of China's exports involve processed goods and devaluation will inevitably raise the cost for these sectors. Perhaps more importantly, many officials still argue that China's current drop in exports is more due to the lack of demand in Hong Kong, Europe and Central Europe than to a lack of price competitiveness. This argument is at least partially supported by the latest data that show continued growth in exports to countries whose economies are recovering, such as South Korea and Thailand. Even exports to the US, which is supposed to be where competition is most fierce from other Asian producers, show no sign of declining.

Second, **many continue to feel that the root cause of China's economic woes is sluggish domestic demand that would get no benefit from devaluation.** Efforts should continue to focus on how to get people to spend more and how to encourage investment from the private sector. In addition, they seem to hold a dim view of the world economy this year, feeling that the room for exports to grow in the world this year is very limited and the real potential for growth continues to be at home.

Third, while policy-makers do think that China should get whatever help it can from exports -- or at least prevent it from becoming a drag on the economy -- **Beijing still prefers a sectoral approach.** The government has just announced that VAT rebates for some export products, including the largest hard currency earner, textiles, will now get full VAT rebates. China could simply scrap the VAT for all exports. The government is also considering other policies to help exporting firms.

UNCERTAINTIES HEIGHTEN COST OF DEVALUATION

These uncertainties about the effect of devaluation only help raise the price leaders feel they have to pay for devaluing the RMB. The problem now is not simply what negative economic consequences devaluation would have (though that is certainly a factor). The question weighing more heavily on their minds is that, if devaluation doesn't work as effectively as some seem to think, wouldn't that make the potential political, social, and economic costs of devaluation excessively high?

First, **Premier Zhu made RMB stability one of the top three goals of his administration just over a year ago.** Many people who work for him have also emphasized the importance of no devaluation. China's central bank governor still has a couplet at home and the bottom half of the right column has currency stability in it. It doesn't mean they cannot reverse themselves, but these personal commitments to this policy only raises the level of the hurdles described above. They really need to be convinced of its effectiveness first before they want to give devaluation a try.

Second, and related to the first point, a deval could both undermine their own credibility at home and further damage already sagging consumer confidence among the Chinese. **Because of their repeated promise to avoid devaluation, top officials worry that reversal would be seen as a sign of panic and as an unavoidable last resort that crushes public confidence in the economy.** Many conclude that the main culprit of deflation is the lack of people's confidence and sense of security

about the future. If devaluation doesn't work and the government is seen as having lost the last policy tool, people will feel even more insecure about the future.

Third, there are worries about the possible impact on HK and the peg. Popular impressions notwithstanding, **we have been repeatedly told that both HK and mainland China want to avoid the impression that the two economies and their currencies have been melded.** And synchronized devaluation would create exactly that impression. To let the peg go would also hurt (in Beijing's own logic anyway) their commitment to the one country, two systems model and their credibility with their compatriots in HK. On the other hand, Chinese officials are smart enough to know that no matter what they say, markets will conclude that the peg is gone once the RMB is devalued. They feel that with the combined foreign reserves, they are technically capable of defending the peg against the subsequent "vicious attack," but they doubt the wisdom of using even one HK dollar in that defense. So that leaves them nearly forced to agree on both devaluations at once which puts them in conflict with this most important political dogma.

The fourth price of devaluation would be the extra burden on debt servicing and possible resulting financial instability if more banks and companies are further weighed down. The point here is not how astronomical the debt numbers are, but we are talking about many huge companies that are already struggling to make payments. Deval will no doubt exacerbate their plight. That runs counter to the government's intention to relieve these debt burdens.

WHAT'S NEXT?

At Beidaihe (which we will be attending as guests), the discussion will begin in earnest and word will continue to leak out from the various camps. However, the first decisions to be made will be far more traditional decisions to continue and accelerate the current domestic stimulus programs and there will be a strong push from the top leaders to give these new policies a chance to work before opting for the devaluation. Included among these programs will be monetary easing; jump-starting SOE reforms; across the board pay hikes; and development of a secondary housing market to stimulate spending. And much more.

However, if these domestic stimulus policies do not stem deflation or if exports continue to slide precipitously in the coming months, devaluation will clearly become a gamble worth taking, either later this year or early next year. But if these measures can prove effective in the next few months, deval may not be the inevitable choice for Beijing that many advocate. Given the uncertain economic prospects in China, the markets will continue to feel nervous about the RMB and the HK peg no matter what the long-term outcome will be. We will keep you fully updated on the devaluation debate as it matures in Beidaihe and beyond.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 09:25:52.00

SUBJECT: Morning Meeting for 07/21/99

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/21/99
09:25 AM -----

Medley_Global_Advisors@medleyadvisors.com
07/21/99 09:04:09 AM
Record Type: Record

To:
cc:
Subject: Morning Meeting for 07/21/99

NOTICE: Forwarding this proprietary email report constitutes violation of
United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: mmjul21.pdf)

- mmjul21.pdf

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D46]ARMS272641308.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

Morning Meeting

July 21, 1999

G-7

US: Growth gap still seen; data watch continues

Japan: Hayami says zero rates to stay

G-7

UNITED STATES

A FED DIVIDED OVER MECHANICS AND BIAS

Evidence continues to pour in that the stark divisions between hawks and doves drove the confusion and disagreements around the June FOMC meeting and that, despite the confidence of hawks at that time, the data since that meeting have been unmistakably dove-friendly. **John Berry**, in an extensive Washington Post article today, **outlines both the deep split between doves and hawks and the fact that the neutral bias was exactly what we told you both before the meeting and after the meeting: the result of the split and without meaning for the August 24th meeting.** Berry's research concludes:

"During the last two days of June there was a palpable sense of strain and disagreement as 17 officials struggled to reach their usual consensus, according to Fed sources. The sticking point wasn't so much over what to do about interest rates...but what to tell the world about what the policymakers had in mind for the future... In the end... the Federal Open Market Committee, adopted a so-called neutral directive... The markets rallied strongly on the news, apparently concluding that the FOMC was unlikely to raise rates at the next meeting. However, **the policymakers themselves have different views on what the directive, whether neutral or otherwise, indicates about future changes in interest rates and over what period of time it applies.**"

But Berry goes further, to outline the 3% maximum sustainable growth school we have also written extensively about and finally to note that even those who believe the maximum number may be a little above 3% -- **which includes Greenspan himself -- "remains concerned about the potential for overheating and more inflation because spending by consumers, businesses and governments has been rising even faster than that."** This goes directly back to the origin of the 3% growth limit that Greenspan himself set during the June 17th JEC speech when he outlined the following mechanical relationship: This is Greenspan from the JEC speech:

"Despite its extraordinary acceleration, labor productivity has not grown fast enough to accommodate the increased demand for labor induced by the exceptional strength in demand for goods and services. Overall economic growth during the past three years has averaged four percent annually, of which roughly two percentage points reflected increased productivity and about one point the growth in our working age population. The remainder was drawn from the ever decreasing pool of available job seekers without work. That last development represents an unsustainable trend that has been produced by an inclination of households and firms to increase their spending on goods and services beyond the gains in their income from production. That propensity to spend, in turn, has been spurred by the rise in equity and home prices, which our analysis suggests can account for at least one percentage point of GDP growth over the past three years."

This is not a matter of interpretation or tea leaf reading; it is the basic mechanical structure of the debate that Greenspan outlined in the public testimony and that pushed the Fed into a tightening bias and a rate hike on the back of accelerating spring data. As Berry writes today, "Looking ahead, Greenspan, Hoenig, Boehne, Broaddus, McTeer and a number of other officials believe the U.S. economy is now capable of expanding at a 3 percent rate without making inflation worse. Some of them, including the chairman, think the number may well be higher. Broaddus, for example, said, It may be that 3.25 percent rate is on the low side. He nevertheless remains concerned about the potential for overheating and more inflation because spending by consumers, businesses and governments has been rising even faster than that."

Despite those concerns -- which have been at the heart of the pre-emptive argument Greenspan has been making -- there is no way to argue with the fact that the data have not supported this view in the period since June 30th, as became crystal clear last week. But **the mechanics of the concerns Greenspan and company have -- and that have been outlined again in today's article -- mean that the August decision is still driven by data** and that signs that growth is not slowing (particularly the unemployment number, new jobs, average hourly earnings, and retail sales) or that inflation is ticking up again (particularly the ECI, CPI and PPI) would reinforce the notion that the growth and demand gap is still too wide.

JAPAN

MORE INFO ON BOJ TARGETING INFLATION

BOJ Governor Masaru Hayami has been trying to clarify and reinforce the "quasi-inflation target" he announced in April and has been reaffirming at every opportunity since. In particular, the Governor wants to make clear when the BOJ is likely to shift monetary policy to a more tightening stance. Until now he has simply said the Central Bank is committed to the policy "until there is no longer any fear of deflation." Hayami shed a bit of light on the subject when he said, "Fundamentally, it is prices. **I think it is important that, over the medium- to long-term, prices should be genuinely stable.**" **Where do we stand now? "Although it is possible to say that we are in the midst of a transition to stable prices, latent downward pressure on prices remains."**

All well and good, but when will the BOJ know it has done enough and that it is time to let short-term interest rates return to more normal levels? "I think the single most important factor in making that decision will be when we see a self-sustained recovery in private sector demand," Hayami said.

The message is clear. **Zero interest rates will be with us until private sector capital expenditure begins to rise in response to an increase in private sector consumption.** Granted, the Japanese economy is doing better but, if it were not for massive government spending, the Japanese economy would be flat on its back. Zero interest rates will be required for as long as large supplementary budgets are needed to keep the economy ticking over.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 18:25:13.00

SUBJECT: NEC Conference Call on Steel Wire Rod, Fri, 7/23

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Re the above, Lael is holding a conf call on Fri, 7/23, at 9:45am. Prins
+ 1 are invited to participate. Dial x72104, code 3939.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 17:01:46.00

SUBJECT: Agenda for Russia meeting?

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Robert:

Did you receive an agenda/background memo for the Russia meeting? Rob Westcott promised one yesterday. If you have it, could I get a copy?

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 14:35:47.00

SUBJECT: Farewell Party for Dr. Yellen

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

You are invited to a Farewell Party for Janet on Tuesday, July 27, 1999
from 4:00 to 6:00 p.m. in the Vice Presideht's Ceremonial Office, Room 274
OEOB. Please let me know if you plan to attend. Thank you.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 16:22:22.00

SUBJECT: Phone Message from Amondo Falcon

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: Amondo Falcon
Company: Phone: 414-6921
FAX: Message: He is director-nominee of OFHEO (?). He wants to discuss senate confirmation process. He says he was not referred by anyone.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 15:56:44.00

SUBJECT: Phone Message from Nicole

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Contact: NicoleCompany: Phone: FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 12:36:58.00

SUBJECT: Has anyone seen the CEA Dolley--as in cart???

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

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TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

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TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
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TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
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TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 17:55:11.00

SUBJECT: Caseload report, FYI

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D12]ARMS24245830G.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

**THE EFFECTS OF WELFARE POLICY AND THE ECONOMIC EXPANSION ON WELFARE
CASELOADS: AN UPDATE**

August 3, 1999

A Report by the Council of Economic Advisers

This study could not have been completed without the generous assistance of the Department of Health and Human Services in providing data and program information.

EXECUTIVE SUMMARY:
THE EFFECTS OF WELFARE POLICY AND THE
ECONOMIC EXPANSION ON WELFARE CASELOADS: AN UPDATE

This study investigates the causes behind recent changes in welfare caseloads, updating a 1997 CEA study of caseload change.

- *The fall in welfare caseloads has been unprecedented, wide-spread, and continuous, and employment has increased.* 14.1 million people received welfare in January 1993, and this number had fallen to 7.6 million by December 1998. In 23 states the caseload is less than half of what it was when President Clinton took office, and all states have experienced double-digit percentage declines. For 22 states, the percent drop during 1998 was larger than during 1997 (from January to December). Previous analyses by the Department of Health and Human Services show that the percentage of welfare recipients working tripled between 1992 and 1997, and an estimated 1.5 million adults who were on welfare in 1997 were working in 1998.
- *The 1996 legislation has been a key contributor to the recent declines.* PRWORA produced a dramatic change in welfare policy: work and self-sufficiency became a primary goal; state and local governments were given much greater control of their programs; and states experimented with a host of program designs. The evidence suggests that these changes caused a large drop in welfare participation, a drop that is independent of the effects of the strong labor market. The estimates imply that TANF is the single largest factor that can be identified, accounting for roughly one-third of the reduction in caseloads from 1996-1998. In the earlier years, 1993-1996, most of the decline was due to the strong labor market, while welfare waivers played a smaller yet important role.
- *The strong labor market has made work opportunities relatively more attractive, drawing people off welfare and into jobs.* The unemployment rate has not declined as much in the post-TANF period as it did in the 1993-96 waiver period. As a result, the share of the decline in the caseload that is attributable to improvements in the labor market was much higher in the 1993-96 period (roughly 26 to 36 percent) than in the 1996-98 period (8 to 10 percent).
- *Past increases in the minimum wage have made work more attractive and, as a result, caused welfare participation to decline.* The estimates imply that a \$0.50 increase in the minimum wage has been associated with a decline in welfare participation of 4-6 percent.
- *The specific program design adopted by a state can affect its caseload declines.* The study examines the effects of a number of specific policies, including family caps, earnings disregards, time limits, work exemptions, and work sanctions on the size of the caseload.

The large sustained declines in caseloads provide one piece of evidence about the effectiveness of welfare reform efforts. However, there are multiple indicators of success in welfare reform, including increases in work and earnings among welfare leavers, higher marriage rates and fewer out-of-wedlock pregnancies, improved child well-being in current and former welfare families, and lower poverty rates. The Clinton Administration is collecting and tracking information on all of these measures in order to fully assess the impact of welfare reform.

THE EFFECTS OF WELFARE POLICY AND THE ECONOMIC EXPANSION ON WELFARE CASELOADS: AN UPDATE

OBJECTIVE OF STUDY & SUMMARY OF FINDINGS

During the first six years of the Clinton Administration, the number of people receiving welfare declined by 6.5 million. Not since 1968 has such a small share of families received welfare. Not only have the declines been large, they have also been widespread and continuous (Table 1). Between 1993 and 1998, all 50 states and the District of Columbia experienced double-digit percent reductions in welfare participation, and in most states the declines were unprecedented. Although a substantial share of the reduction occurred between 1994 and 1996, in many states the largest declines have occurred more recently. In fact, in 22 states the percentage decline during 1998 (from January to December) was greater than it was in 1997.

This study updates and extends a 1997 Council of Economic Advisers (CEA) study examining the relative importance of a variety of economic and policy changes on caseload declines.¹ The earlier study examined changes in welfare participation between 1993 and 1996; the current study updates that report by including data through 1998. It also analyzes the effects of additional factors, such as changes in the minimum wage as well as the welfare reforms enacted in 1996.

This report finds that from 1996-98 policy factors were extremely important, which is not surprising given the scope of the 1996 reform. The 33 percent decline in the reciprocity rate between 1996 and 1998 was due in large part to the changes in state welfare programs implemented under the Temporary Assistance for Needy Family (TANF) block grant. Specifically, roughly one-third of the caseload decline between 1996 and 1998 was due to program reforms implemented under TANF, 8-10 percent was due to the improved labor market, about 10 percent was due to the higher minimum wage, and 1-5 percent was due to lower cash welfare benefits.

During 1993-96, roughly 26-36 percent of the caseload decline was due to the improved labor market. The relatively large effect of labor market conditions on the caseload over this period reflects the fact that the decline in unemployment between 1996-98 was much smaller than the decline experienced between 1993-96. Another 12-15 percent of the decline in welfare participation was due to welfare waivers, which were issued to states to allow them to experiment with alternative program designs. The caseload fell 6-22 percent because of lower inflation-adjusted welfare benefits. The real value of the minimum wage fell between 1993 and 1996 (the increase in the minimum wage in 1996 occurred in October, so it was not effective most of the year), which by itself would have caused the caseload to increase by about 10 percent. The remaining change was due to other factors.

¹ Council of Economic Advisers (1997). "Explaining the Decline in Welfare Receipt, 1993-1996: Technical Report," Executive Office of the President of the United States.

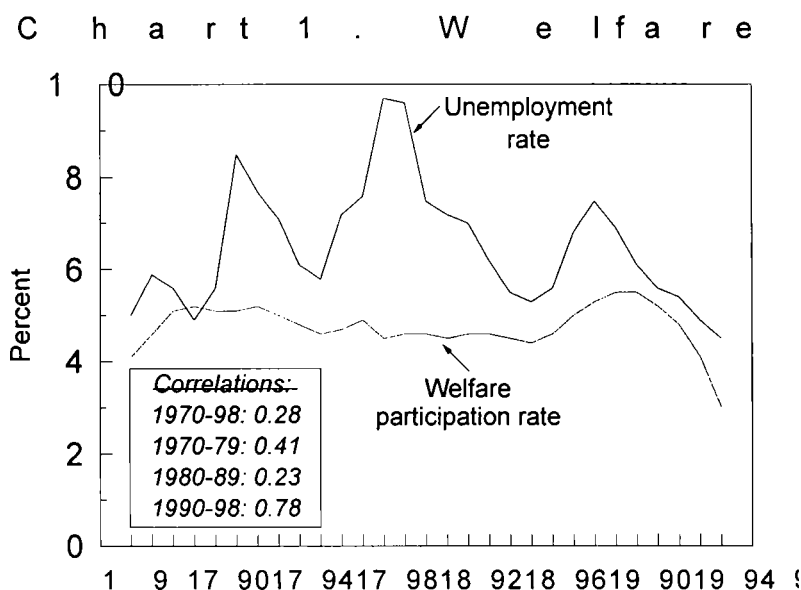
Table 1. Changes in the Number of Recipients in Each State

State	Number of recipients		Percentage Change From		
	1993	1998	'93 to '96	'96 to '98	'93 to '98
Alabama	138,465	54,635	-26	-46	-61
Alaska	37,078	29,582	-1	-19	-20
Arizona	199,153	102,511	-16	-39	-49
Arkansas	71,989	32,633	-21	-43	-55
California	2,511,293	1,998,618	3	-23	-20
Colorado	122,890	50,746	-22	-47	-59
Connecticut	162,481	117,777	-2	-26	-28
Delaware	27,736	15,820	-16	-32	-43
DC	69,549	54,856	0	-21	-21
Florida	691,053	261,581	-22	-52	-62
Georgia	398,077	185,052	-15	-45	-54
Hawaii	57,336	46,724	16	-30	-19
Idaho	21,877	3,867	1	-83	-82
Illinois	694,050	476,576	-7	-26	-31
Indiana	215,367	111,176	-35	-21	-48
Iowa	102,438	65,665	-16	-24	-36
Kansas	88,363	34,536	-26	-47	-61
Kentucky	220,766	119,360	-22	-31	-46
Louisiana	259,762	124,800	-12	-46	-52
Maine	66,914	39,423	-18	-28	-41
Maryland	219,998	116,456	-11	-40	-47
Massachusetts	321,219	167,043	-28	-27	-48
Michigan	689,139	332,240	-26	-35	-52
Minnesota	192,173	143,685	-12	-15	-25
Mississippi	168,924	52,523	-26	-58	-69
Missouri	262,382	147,105	-14	-35	-44
Montana	34,875	19,540	-13	-35	-44
Nebraska	47,840	36,665	-20	-4	-23
Nevada	36,009	25,472	-2	-28	-29
New Hampshire	29,797	15,409	-22	-34	-48
New Jersey	345,370	196,947	-19	-30	-43
New Mexico	97,246	74,170	2	-25	-24
New York	1,215,526	886,746	-5	-23	-27
North Carolina	335,620	169,144	-20	-37	-50
North Dakota	18,215	8,541	-28	-35	-53
Ohio	712,277	340,179	-24	-37	-52
Oklahoma	135,762	61,191	-27	-38	-55
Oregon	117,852	46,001	-31	-43	-61
Pennsylvania	610,531	360,009	-14	-32	-41
Rhode Island	62,187	54,150	-8	-6	-13
South Carolina	146,280	60,110	-22	-48	-59
South Dakota	19,913	9,653	-21	-39	-52
Tennessee	310,486	149,089	-20	-40	-52
Texas	784,816	370,857	-16	-44	-53
Utah	52,144	28,258	-25	-28	-46
Vermont	28,301	19,643	-12	-21	-31
Virginia	194,765	99,053	-20	-36	-49
Washington	289,965	202,573	-6	-25	-30
West Virginia	118,113	38,638	-25	-56	-67
Wisconsin	235,247	40,167	-33	-75	-83
Wyoming	17,859	2,471	-32	-80	-86
Total	14,007,468	8,199,666	-13	-33	-41

Data are the average monthly caseloads for the calendar year.

WELFARE PARTICIPATION AND THE LABOR MARKET

Caseloads normally fluctuate with the business cycle, rising in periods of high unemployment and declining when unemployment falls. Chart 1 illustrates this relationship between labor market opportunities and welfare participation over the past three decades. When unemployment increased in the early 1970s, so did welfare participation. The increase in welfare participation in the late 1980s and early 1990s, as well as the decline that began in 1994, also correspond with changes in employment opportunities during these periods. However, the trend in welfare participation does not always match that in unemployment, most notably when other important changes are taking place, including changes in family structure and welfare policies.



Economic conditions vary across states as well as over time. Chart 2 displays a scatterplot of the unemployment rate versus the welfare participation rate for each state and the District of Columbia in 1994 when participation was near its peak. This relationship is quite strong, with a simple correlation of 0.65. While this correlation suggests a strong role for economic factors, it is likely to overstate their true role. Characteristics of states that influence their unemployment rates may also influence welfare participation. These characteristics include the age distribution, educational level, metropolitan/rural population shares, and racial and ethnic composition. While these factors may change over time, such change occurs more slowly than changes in policy or economic conditions.

One way to eliminate the effects of these “fixed” factors is to examine changes over time within states, which is the approach employed in this study. Chart 3 displays the simple relationship between the *change* in the unemployment rate and the *change* in the welfare participation rate in each state between 1994 and 1998. It demonstrates that once unchanging state characteristics are removed, the relationship between the unemployment rate and caseloads is not nearly as strong as the simple cross-sectional one, with a correlation of 0.17.

Chart 2. Welfare Participation Rate Versus
Unemployment Rate for Each State, 1994

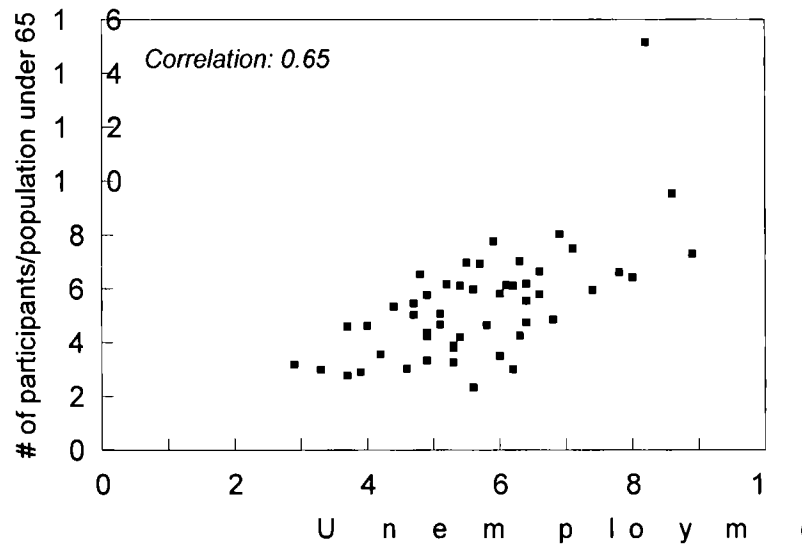
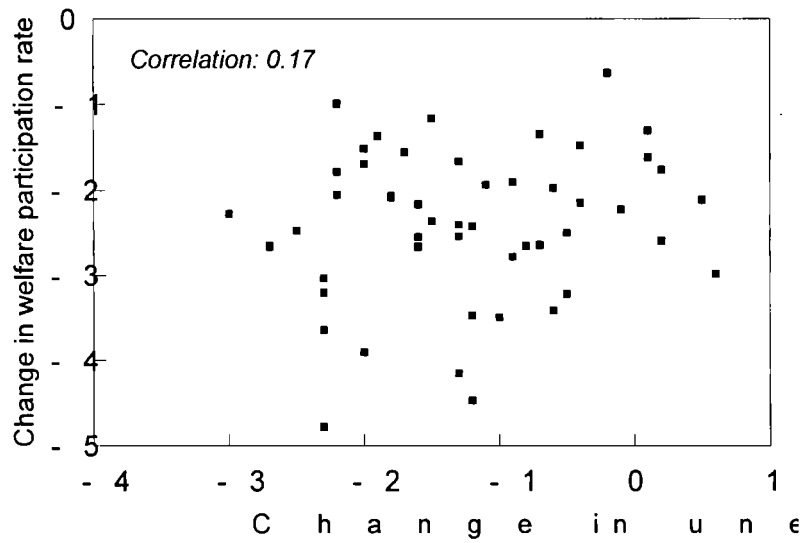


Chart 3. Change in Welfare Participation Rate Versus
Change in Unemployment Rate for Each State, 1994-98



The changes over time for the nation as a whole also suggest that factors other than the economy have a substantial effect on welfare participation (Chart 1). For example, increases in welfare participation during the recession of the early 1980s were truncated by eligibility restrictions that were part of President Reagan's welfare reform efforts in 1982. As a result, over the entire 1980s the simple correlation between unemployment and welfare participation was much lower (0.23) than it was in the 1970s (0.41) or the 1990s (0.78).

FEDERAL AND STATE POLICIES

A number of key policy changes have been implemented in recent years and might be expected to have had an impact on welfare participation and caseloads.

Welfare Waivers

Since 1962 the Secretary of Health and Human Services has had the authority to waive federal program requirements in the Aid to Families with Dependent Children (AFDC) program if a state proposed experimental or pilot programs that furthered the goals of AFDC. Although there were a few waivers granted in the early 1980s, it was not until the early to mid-1990s that major, state-wide waivers became widespread. Between 1993 and 1996, the Clinton Administration issued welfare waivers to 43 states, more than any previous Administration. Table 2 lists the date that each state implemented a major state waiver.

These waivers varied substantially across states, and in many cases they differed greatly from the rules under AFDC. Some waivers increased the amount of earnings recipients were allowed to keep and still be eligible for welfare. Other waivers expanded work requirements to a larger number of recipients, established limits on the length of time recipients could remain on aid, permitted states to sanction participants who failed to meet work requirements, or allowed states to eliminate benefit increases to families who conceived and gave birth to children while on welfare (the so-called "family cap"). Given the widespread use of waivers and the degree to which these policies differed from traditional AFDC policy, there is substantial reason to believe that waivers contributed to changes in welfare caseloads.

Like the 1997 CEA study, this report focuses on six "major" types of waivers that received approval to be implemented state-wide²: termination time limits, work requirement time limits, family caps, JOBS exemptions, JOBS sanctions, and the earnings disregard. Each of these policies was discussed in detail in

² In a few instances waivers were examined which were not approved to be implemented state-wide but affected a large share of the state's caseload.

Table 2. Dates of Major Welfare Waivers and TANF Implementation

	Date of First Major Waiver Implementation	TANF Implementation Date
Alabama		11/15/96
Alaska		7/1/97
Arizona	11/1/95	10/1/96
Arkansas	7/1/94	7/1/97
California	12/1/92	1/1/98
Colorado		7/1/97
Connecticut	1/1/96	10/1/96
Delaware	10/1/95	3/10/97
DC		3/1/97
Florida		10/1/96
Georgia	1/1/94	1/1/97
Hawaii	2/1/97	7/1/97
Idaho		7/1/97
Illinois	11/23/93	7/1/97
Indiana	5/1/95	10/1/96
Iowa	10/1/93	1/1/97
Kansas		10/1/96
Kentucky		10/18/96
Louisiana		1/1/97
Maine		11/1/96
Maryland	3/1/96	12/9/96
Massachusetts	11/1/95	9/30/96
Michigan	10/1/92	9/30/96
Minnesota		7/1/97
Mississippi	10/1/95	7/1/97
Missouri	6/1/95	12/1/96
Montana	2/1/96	2/1/97
Nebraska	10/1/95	12/1/96
Nevada		12/3/96
New Hampshire		10/1/96
New Jersey	10/1/92	7/1/97
New Mexico		7/1/97
New York		11/1/97
North Carolina	7/1/96	1/1/97
North Dakota		7/1/97
Ohio	7/1/96	10/1/96
Oklahoma		10/1/96
Oregon	2/1/93	10/1/96
Pennsylvania		3/3/97
Rhode Island		5/1/97
South Carolina		10/12/96
South Dakota	6/1/94	12/1/96
Tennessee	9/1/96	10/1/96
Texas	6/1/96	11/5/96
Utah	1/1/93	10/1/96
Vermont	7/1/94	9/20/96
Virginia	7/1/95	2/1/97
Washington	1/1/96	1/10/97
West Virginia		1/11/97
Wisconsin	1/1/96	9/1/97
Wyoming		1/1/97

the appendix to the 1997 CEA Technical Report.³ Some of the waivers that were approved for state-wide implementation were initially implemented state-wide, some were implemented in selected areas of the state, while still others began in small regions of the state but were eventually phased in state-wide. Information on the pace of implementation is not available for all states. Therefore, the date that is used to signal implementation is the date that the waiver began to be implemented.⁴

The statistical analysis in this report, as in the earlier CEA report, compares states that did and did not have welfare waivers, determining whether those states that implemented waivers experienced larger caseload declines than those that did not. It improves on the earlier report by using the actual date the waivers were implemented in the states rather than the dates they were approved by HHS. In making these comparisons, the current analysis also adjusts for other differences across these states that may account for the differential decline, including economic conditions, cash benefit levels, and the minimum wage.

PRWORA

Enacted in August of 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is designed to emphasize self-sufficiency and employment in place of welfare dependency and gives states greater flexibility to design and implement programs to achieve these goals. Benefits are time-limited; adults usually cannot receive Federal aid for more than 5 years during their lifetime, and some States have chosen to set shorter time limits. Most recipients must also participate in a work activity within two years to continue receiving aid.

PRWORA abolished the AFDC program and established the Temporary Assistance for Needy Families (TANF) block grant to help states fund their welfare programs. Under the TANF block grant, Federal assistance consists of an annual fixed transfer to each state equal to the amount of federal transfers the state received in fiscal year 1994, 1995, or the average of 1992-4, whichever was higher. In addition, most of the authority to design welfare programs was passed along to the States, who are required to have half of all recipients working by 2002 (40 percent by 2000). As a result, there are now substantial differences in how welfare programs operate across the nation. Some states increase benefits to welfare families who have additional children, while others do not. Some states stop payment of benefits to the entire family at the first instance of their failure to meet work activity requirements, while other states never sanction more than the adult. Most states allow welfare recipients to keep a substantial portion of their labor market earnings without reducing their welfare payments, while others do not. We investigate both the overall effect of TANF-funded programs on caseloads, as well as the impact of specific policy choices made by the states as part of their waiver or TANF-funded plan.

The effects of the new state programs implemented under the TANF block grant are estimated by examining changes in each state's caseload before and after it implemented TANF, again, after adjusting for other factors such as the unemployment rate and the minimum wage. States were required to submit their TANF plans to the Department of Health and Human Services for approval no

³ It was determined that the waiver in West Virginia, which was considered a "major" waiver in the 1997 CEA study, did not in fact meet this requirement (Martini and Wiseman, 1997), which is reflected in Table A1.

⁴ Somewhat larger effects are estimated when the date of approval, which was utilized in the 1997 CEA study, is used instead of the date of implementation, as described in appendix A.

later than July 1, 1997. Some states moved quickly after PRWORA was passed to enact TANF-funded programs, building on their welfare reform waivers, while other states operated for a period of time under the older AFDC program rules.⁵ The date that each state implemented its TANF program is listed in Table 2.

Minimum Wage

A higher minimum wage can make work more attractive, giving welfare recipients a greater incentive to enter the workforce and leave public assistance. On the negative side, if a higher minimum wage reduces employment of low-skilled workers, some people may lose their jobs and enter welfare. At the same time, an increase in the minimum wage may lead employers to substitute away from teenagers (a relatively large share of whom work for the minimum wage) and towards older welfare workers (who are perhaps not as likely to work at the minimum wage, but more likely to be working just above the minimum than teenagers). The latest empirical evidence is mixed, but most studies find either modest or no disemployment effects associated with past increases in the minimum wage.

The minimum wage also varies among states, with 15 states having minimums above the federal floor at some point during the period analyzed in the study (1976-1998). Therefore, the study compares the relationship between welfare participation and minimum wages over time and across states.

AFDC/TANF Benefit Levels

States have long set their own level of maximum monthly benefit payments, with variation by family size and composition. All else equal, higher benefit levels are expected to increase the number of participants. Over the period of this study, the inflation-adjusted level of welfare benefits fell in almost all states. In some cases the state explicitly lowered (or raised) benefits, but in most states benefit levels were fixed and eroded over time with inflation.

DATA AND METHODOLOGY

Using annual calendar year data from 1976 to 1998 on all states and the District of Columbia, the analysis is based on 1,173 observations. A set of models are estimated, which correlate movements in welfare participation with movements in state unemployment rates, state AFDC benefit levels, state/federal minimum wage levels, the implementation of state waivers, and the implementation of state TANF-funded welfare programs.⁶

The estimated models also control for the characteristics of states that are largely unchanged over the entire (1976-98) time period, and for changes in each year that are common to all states. In technical

⁵ In most cases, the waiver concept becomes meaningless once TANF was implemented because states were given broad control over their welfare policies. In particular, states could operate the broad categories of policies under TANF, whether or not they were continuing a waiver. However, if a state continued a time limit waiver, then participants' time clocks in that state would have been running prior to TANF implementation. As a result, these participants would reach their time limits more quickly than if their clock would have been reset on the date of TANF implementation.

⁶ Most of the data used in the analysis come from well-known sources, with a few exceptions. The information on implementation dates as well as program waivers and TANF were obtained from the Department of Health and Human Services and the Urban Institute (Gallagher et al., 1998).

jargon this is known as controlling for state and year fixed effects; this technique is used in all existing studies of annual caseload changes. The estimates are based on a technique known as weighted least squares, which uses the data across states and over time, and weights the data in each state by its overall population. A Technical Report is available which provides more details on the data and the estimation procedures for interested readers. As always in such studies, we estimate a variety of slightly different models to test the robustness of our results to the exact set of variables included.

The results of this methodology are to estimate the effect of changes in the economy or in policies *over time within a state* on the caseload in that state. Hence, the results are the direct result of asking “If variable X changes over time within a state, what will be the effect on caseloads in that state?” This is clearly the question in which we are most interested. It allows us to measure the effects of (say) waiver implementation or unemployment changes on caseload changes over time.

This approach is very similar to the approach used in the 1997 study. One difference is that the earlier study emphasized models that incorporated a “lead” effect of waiver policies. That is, waivers were allowed to affect caseloads one year prior to the date they were approved. While the current study also reports models that incorporate leads, the preferred models do not contain leads. This difference explains why waivers were found to account for 31 percent of the change between 1993 and 1996 in the 1997 study, but only 12-15 percent of the change in the current study.

RESULTS

These results report the estimated effects on caseloads of each of the variables discussed above, holding constant the effects of changes in all other variables. Chart 4 shows the contribution of various factors in the recent 1996-98 period.

The 1996 welfare reform legislation has been a key contributor to caseload declines since it was enacted. The average state experienced an 18 percent decline in welfare participation following the implementation of their TANF-funded state welfare plan, holding all other policy and economic variables constant. These new state programs funded by the TANF block grant account for roughly one-third of the 33 percent decline in the reciprocity rate that has occurred since 1996 (Chart 4).

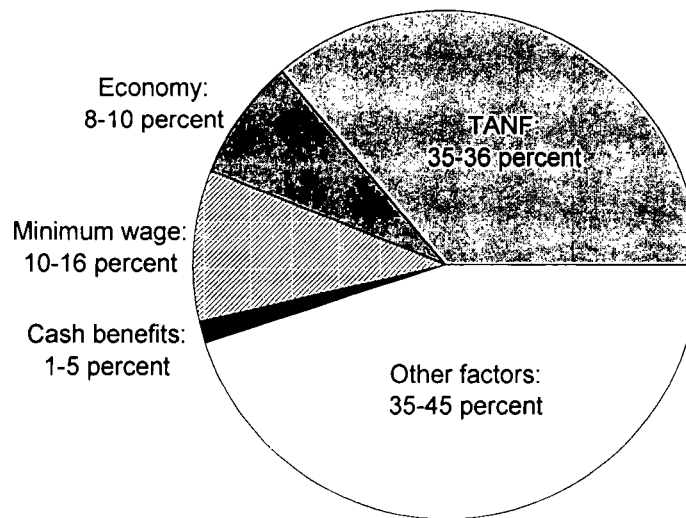
As reported in the earlier CEA study, welfare waivers that were implemented prior to PRWORA explain a substantial share of the caseload decline from 1993 to 1996. States that implemented major waivers experienced an 8-9 percent greater decline in welfare participation than states that did not, holding all other policy and economic variables constant. This accounts for 12-15 percent of the overall decline between 1993-96.

The strong labor market has made work opportunities relatively more attractive, drawing people off welfare and into jobs. The unemployment rate has not declined as much in the post-TANF period (1996-98) as it did in the 1993-96 waiver period. As a result, the share of the decline in the caseload that is attributable to improvements in the labor market was much higher in the 1993-96 period (26 to 36 percent) than in the 1996-98 period (8 to 10 percent). This study reaffirms the importance of maintaining a healthy macroeconomy with low unemployment rates in order to help families move off and remain off of welfare. Any future 1-percentage-point increase in unemployment is likely to produce a 5 to 7 percent increase in welfare caseloads.

The study also finds that increases in the minimum wage have made work more attractive and, as a result, caused welfare participation to decline. The estimates suggest that a \$0.50 increase in the minimum wage has been associated with a decline in welfare participation of 4 to 6 percent. Hence, the recent minimum wage increases have helped reduce welfare rolls (Chart 4).

As many other studies have confirmed, higher welfare benefit levels result in higher caseloads. As noted above, this need not reflect any behavioral differences in higher-benefit states, but may only be due to the fact that higher benefits typically imply that a larger share of the population is eligible to receive public assistance.

Chart 4. Percentage of Change in Participation from 1996-98 Attributable to Each Factor



The specific program design adopted by a state can affect its caseload declines. The study examines the effects of a number of specific policies, including time limits, earnings disregards, work sanctions, family caps, and work exemptions on the size of the caseload. We estimate the effects of these policies regardless of whether they were implemented as part of a state's waiver plan or a TANF-funded plan. Our results on the effects of specific policies should be interpreted with caution, since only a limited number of states have implemented many of these policies for only a relatively short period of time. The primary results with regard to these policies are:

- Time limits have the expected negative effect, but this is not precisely estimated (very few participants have actually hit time limits in any state.)
- Higher earnings disregards raise participation modestly.
- Strong work sanctions are associated with declines in welfare participation.

- Contrary to expectations, family caps are associated with an increase in caseloads.
- Work exemption policies based on the age of the youngest child do not play a substantial role in determining caseloads.

CONCLUSIONS

The large sustained declines in caseloads provide one piece of evidence about the effectiveness of welfare reform efforts. This study suggests that caseload declines have occurred in part because of a strong economy with low unemployment rates. However, policy changes by state and Federal governments have been even more important in explaining the post-1996 decline than the strong labor market. The new state programs implemented following the enactment of PRWORA, most of them focused on increasing work effort among welfare participants, have been the most important identifiable factor explaining the decline from 1996-1998. Increases in the minimum wage, at the Federal level and among some states, have also reduced caseloads.

However, there are multiple indicators of success in welfare reform, including increases in work and earnings among welfare leavers, higher marriage rates and fewer out-of-wedlock pregnancies, improved child well-being in current and former welfare families, and lower poverty rates. The Clinton Administration is collecting and tracking information on all of these measures in order to fully assess the impact of welfare reform.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1999 09:07:08.00

SUBJECT: Phone Message from Patricia

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Contact: Patricia
Company: Professor James Riedel's office
Phone: 663-5684
FAX: Message: Professor Riedel is in Vietnam, and is not expected back until the end of the month. She has several addresses, phone numbers and e-mails which may or may not actually reach him, and she is not sure of his exact travel schedule. She plans to send him a last e-mail this morning, and I asked her to include the message that you were trying to reach him in that e-mail. If you would like to get from her other phone numbers, etc. please call her back.

**Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]**

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2013-0306-F

Bucket: CEA

Creation Date: 1999-07-21

Subject: aflcio

Creator: Audrey Choi

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-JUL-1999 13:58:09.00

SUBJECT: Dr. Yellen's Farewell Reception

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Paul K. Hoffmeister (CN=Paul K. Hoffmeister/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jacob M. Studley (CN=Jacob M. Studley/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Burth G. Lopez (CN=Burth G. Lopez/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

The reception will be held in the Indian Treaty Room (474). This is a change from the location sent in the original e-mail invitation.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-JUL-1999 09:29:09.00

SUBJECT: Russia issues

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

I called Rob Westcott about the Russia meeting (to see if their was a background paper). He told me, of course, that the meeting had been cancelled.

On the market-non-market designation, we have agreed to have a working group (with the Russians) to discuss the issue further. In principle, that working group might help convey the message we talked about, Robert, of giving incentives to eliminate some distortions. But it appeared that Commerce felt there was no way that in the law they follow they could find Russia a market economy. Several of the conditions seem to have been drafted with Russia in mind--e.g, no significant role for barter. Lael liked the idea of allowing SECTORS to be designated market sectors, but the consensus view was that there were so many distortions (cheap energy inputs; non-payment of taxes, etc) that this wouldn't work.

A second issue the Russians wanted to discuss was WTO strategy, and I believe we have also agreed to have a working group on that. (By the Russians count, they need 47 pieces of legislation--but they don't necessarily know the priorities we put on the different pieces.)

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-JUL-1999 13:42:21.00

SUBJECT: Deputies Meeting on GMOs

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

fyi

----- Forwarded by Lisa D. Branch/CEA/EOP on 07/22/99
01:42 PM -----

Sharon H. Yuan
07/22/99 01:33:25 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Bruce McNamer/OPD/EOP@EOP
Subject: Deputies Meeting on GMOs

There will be a deputies meeting on GMOs on Wednesday, July 28 at 1:30 pm in Room 248. Principals plus one are welcome. Please let me know whether or not you will be able to attend.

Thanks.

Sharon

Message Sent

To:

Nancy Marlow/CEQ/EOP@EOP
Betty J. Fountain/OSTP/EOP@EOP
Clifford J. Gabriel/OSTP/EOP@EOP
Ian Bowles/CEQ/EOP@EOP
Carolyn T. Wu/WHO/EOP@EOP
donna_jackson@ita.doc.gov
corless.hamm@usda.gov @ inet
einhellig_wendy@ustr.gov@INET@VAXGTWY
Andrew F. Schneider/OVP@OVP
David W. Beier/OVP@OVP
Pieter J. Boelhouwer/OVP@OVP

Richard M. Saunders/OVP@OVP
Lisa D. Branch/CEA/EOP@EOP
alexandrowiczae@state.gov
Donna Dejbani/NSC/EOP@EOP
David B Sandalow/CEQ/EOP@EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Subramanian.RANGAN@insead.fr (Subramanian RANGAN) (Subramanian.RANGAN@insead.fr (Subramanian RANGAN) [UNKNOWN])

CREATION DATE/TIME:22-JUL-1999 11:15:52.00

SUBJECT: South Africa

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

Robert, I have to, on behalf of INSEAD, give a brief talk in South Africa to a largish group of CEOs and other senior executives. Cyril Ramaphosa, Walter Sisulu, the Chairman of Anglo, and others will be attending. I am wondering whether you can give me some tips on what you think might be interesting for this audience to hear. I am supposed to speak on Globalization. I tried to call you but you were out. Could you please email me a few words/topics? I'll speak to you soon.

Subi

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-JUL-1999 10:05:38.00

SUBJECT: Morning Meeting for 07/22/99

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

----- Forwarded by Steven N. Braun/CEA/EOP on 07/22/99
10:05 AM -----

Medley_Global_Advisors@medleyadvisors.com
07/22/99 08:50:49 AM
Record Type: Record

To:
cc:
Subject: Morning Meeting for 07/22/99

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United States and international copyright laws, and will be pursued to the
full extent of the law.

Medley Global Advisors 212-219-9096

(See attached file: mmjul22.pdf)

- mmjul22.pdf

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D29]ARMS26069240R.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEDLEY GLOBAL ADVISORS

Morning Meeting

July 22, 1999

G-7

Japan: Killing me softly

United Kingdom: Labour not for turning

G-7

JAPAN

MOF CONTINUES TO DE-SAKAKIBARA YEN POLICY; MARKETS CONTINUE TO TEST

MOF officials continue to pursue their determined attempt to shift the style of their yen policy without shifting the essential content of that policy. As you have heard, both through us and in public commentary last night, the essential mantra of "no premature strengthening of the yen" is still intact. And we would also remind you that despite intervening above 120 in June, **the quiet official policy levels set by MOF had always centered on 120 rather than having 120 as a barrier (in other words 115-125 as hard barriers and 117-123 as optimal zones).**

But making this style shift stick is an increasingly tough sell. As we first told you in a report the day new MOF Vice Minister Kuroda took office, the new policy of "managed float" is designed to remove any sense of narrow targeting that markets may have drawn from the intervention policy of former Vice Minister Sakakibara. In its place is the tactically driven attempt to "keep sentiment from firming in favor of a stronger yen."

If our own discussion with market participants is any indication, then we continue to think they are closer to losing that battle than they may understand. Our sense continues to be that markets will challenge this new, quieter policy primarily because it is hard for traders to believe that MOF simply is taking a more subtle approach to an essentially unchanged yen policy. Instead there is growing concern that current officials simply have a weaker conviction about the yen policy. And **with new leadership in both Tokyo and Washington, markets will press their case until they are convinced the new limits have been thoroughly tested.** The weight of market forces makes it clear that the dollar will continue to fall toward the hard 115 barrier as this dance goes on unless intervention is stepped up in a more convincing manner.

The new team at MOF is -- if anything -- more qualified and more market sensitive than the Sakakibara team and they are much more willing to play the kind of tactical game of chicken that we have seen in the past month. One thing is clear, there is a significant backlash against the entire style of policy conducted under Sakakibara and that is a large part of why the change in tone is so evident. MOF officials were never comfortable with the high profile risk-taking of Sakakibara and the older, quieter style is returning quickly to the halls of the ministry. **Do not expect this to mean a lack of intervention, but do expect that intervention to be aimed at keeping the market from being able to rely on any specific pattern of intervention.** After all, there's a reason why another name for "managed float" is a "dirty float."

UNITED KINGDOM

DESPITE SILLY SEASON HEADLINES, LABOUR STILL ON COURSE TO PRO-EMU CAMPAIGN

In the high summer all over Europe there is a sense that stories sometimes make it to the front pages that really don't belong in print. A case in point is the series of UK EMU referendum postponement headlines this week that have elevated a completely false story to the level of conventional wisdom. **Our conversations with senior cabinet officials confirm there has been absolutely no change in Labour Party policy on EMU. While the five fudges are still there (as a hedge in case Labour fears they cannot win a referendum), the plan is to start the "Britain in Europe" campaign in September followed by a pro-EMU campaign in earnest through next year.** Labour officials believe that the strong public opposition to EMU is based on a pretty unsophisticated view of what EMU is all about, and has been supported by the weak performance of the euro against the dollar, which the Tories have effectively exploited to date.

But if there is anything New Labour is good at these days it is defining the issues on which elections are fought (well, OK, maybe they didn't do so well in the European elections). Increasingly, **there is talk of highlighting the Tory internal divisions over whether they want to remain in the European Union at all.** There is a sizable group of Conservatives -- including several shadow cabinet ministers -- who would probably be willing to say that Great Britain should pull out of the European Union altogether, while shrewder heads, like shadow Chancellor Francis Maude, are now saying they believe the euro will be a success. Maude is likely to try to nuance that message early next week. But Labour strategists believe that highlighting the more radical views and the gulf between them and the views of Maude (much less the ardently pro-Europe views of Clarke, Heseltine, and Howe) could help to balance the public debate on Europe.