Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Records Management at 08:07:30.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/21/1997	b(6)
002. email	Michele Jolin to Janet L. Yellen at 16:27:20.00. Subject: Re: Rebecca Blank. (1 page)	07/22/1997	b(6)
003. email	Janet L. Yellen to Records Management at 22:31:42.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/22/1997	b(6)
004. email	Janet L. Yellen to Records Management at 20:27:27.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/24/1997	b(6)
005. email	Janet L. Yellen to Records Management at 16:31:42.00. Subject: Official USSS WAVES Request - Records Management Document. (1 page)	07/27/1997	b(6)
006. email	WAVES_CONF to Janet L. Yellen at 14:40:39.00. Subject: WAVES Confirmation. (partial) (1 page)	08/03/1997	b(7)(C), b(7)(E), b(7)(F), b(6)
007. email	WAVES_CONF to Janet L. Yellen at 14:40:40.00. Subject: WAVES Confirmation. (partial) (1 page)	08/03/1997	b(7)(C), b(7)(E), b(7)(F), b(6)
008. email	WAVES_CONF to Janet L. Yellen at 14:40:41.00. Subject: WAVES Confirmation. (partial) (1 page)	08/10/1997	b(7)(C), b(7)(E), b(7)(F), b(6)
009. email	WAVES_CONF to Janet L. Yellen at 08:00:51.00. Subject: WAVES Confirmation. (partial) (1 page)	08/04/1997	b(7)(C), b(7)(E), b(7)(F), b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010. email	Janet L. Yellen to Records Management at 07:41:00.00. Subject: Official USSS WAVES Request - Records Management Document (1 page)	08/04/1997	b(6)
011. email	Janet L. Yellen to Michele Jolin at 16:35:55.00. Subject: Re: Recruiting -- Conversation with Mike Prell. (1 page)	08/07/1997	b(6)

COLLECTION:
Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:
[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:13-JUL-1997 18:25:24.00

SUBJECT:

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

CC: Jason Shogren (CN=Jason Shogren/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.D21]MAIL406176397.116 to ASCII,
The following is a HEX DUMP:

Statement before the House Commerce Subcommittee on Energy and Power
Dr. Janet Yellen
Chair, President's Council of Economic Advisers
Tuesday, July 15, 1997

Good afternoon. Mr. Chairman and distinguished members of the Committee. I appreciate the opportunity to discuss with you today what economists both inside and outside the Administration know about the economics of global climate change.

Introduction

President Clinton has said that he believes that global climate change is a serious issue. The President indicated in his speech to the United Nations General Assembly in late June that he wants to open a dialogue with the American people to discuss the problems posed by greenhouse gas accumulations and to search for policy solutions. To this end, the President will hold a White House conference on climate change later this year, and Members of his Cabinet and other senior Administration officials will meet with scientific and economic experts, environmentalists, local government officials, and business and labor leaders on a regular basis over the next several months to discuss issues related to climate change. This process is intended to inform the Administration's decision-making process, which will culminate in a U.S. policy position in the international negotiations in Kyoto in December of this year. At this time, however, the Administration has not settled on a particular set of policies on how to reduce greenhouse gas emissions.

Most economists also believe that the risks posed by global climate change are a legitimate problem and that preventive steps are justified. More than 2000 economists, including 8 Nobel laureates, have signed a statement supporting measures to reduce the threat of climate change. The statement endorses conclusions from last year's report by the Intergovernmental Panel on Climate Change (IPCC), which said that governments should take steps to reduce the threat of damage from global warming and that market-based policies can significantly reduce greenhouse gas emissions without harming the American economy.

In my testimony today, I intend to describe for you what we have learned so far from the tremendous amount of economic analysis that has been done so far on the impact of global climate change.

Underlying Uncertainties

But, before I begin my discussion of the economics literature, I would like to first emphasize the great uncertainties associated with estimating the costs and benefits of reducing greenhouse gas emissions. Let me give you some perspective: as you all know, it is difficult to gage exactly what the impact of the balanced budget agreement will be on the U.S. economy's growth rate, levels of employment, interest rates and consumption over the next five years.

With global climate change, we are not talking about just the next five years and we are not talking only about the US economy. Instead, we are talking about economic and physical processes that operate globally and over decades, if not centuries. The potential damages of greenhouse gas emissions are not predicted to happen for many decades, and it is difficult to know which regions will get warmer, which will get cooler; which will get wetter, which will get drier; which will get stormier; and which will get calmer. This means that the benefits of climate protection are very difficult to quantify. And, while the costs of reducing greenhouse gas emissions may be more immediate, they too, as I will discuss below, are difficult to predict with any certainty. Many unanswered questions exist about the biophysical systems, potential thresholds, and economic impacts. In short, if anybody tells you he or she has the definitive answer as to the costs and benefits of particular climate change policies, I would suggest that you raise your collective eyebrows.

Lessons from the Economic Literature

Let me now turn to the economics literature and try to summarize for you what we think we know so far about this difficult topic. With a few notable exceptions, economists have generally not addressed the benefits of climate protection, but rather have focused on the costs of alternative paths of reducing greenhouse gas emissions. The economics literature includes estimates using many different models to evaluate alternative emission reduction strategies; describing each alternative to you would not be useful. In fact, economists initially had a tough time talking with each other because they could not sort out the extent to which the differences in their results depended on differences in models versus differences in baseline emission paths and policies. To solve this problem, economists have adopted the convention of calibrating their models by performing a common exercise; this exercise has generally involved stabilizing greenhouse gas emissions at 1990 levels by 2010 or 2020.

The Administration's Interagency Analysis Team (IAT) has adopted this same exercise in their attempt to understand the economics of this issue. The staff IAT report summarizing this work was released yesterday [OR will be released by the end of July], along with the reviewers comments. As we go forward in this process, I would be happy to answer any questions that this preliminary staff analysis raises.

The Lessons. The modeling efforts both inside and outside the Administration clearly indicate theat we cannot hope for more than range of possible impacts, but they do provide several important lessons that I would like to share with you today.

How the economy works. First, the magnitude of the costs of reducing greenhouse gas emissions depends crucially on assumptions incorporated in the models about on the how the economy enveloping countries face incentives to move away from carbon intensive energy sources works. For instance:

- If firms in the economy can shift from high carbon to low carbon energy sources quickly, the costs of climate protection will be lower.
- If the economy has a lot of currently unused energy-saving technology that can be

brought into play, the costs of climate protection will decrease.

- If technological change occurs at a rapid rate, the costs will fall.
- If the Federal Reserve keeps the economy at full employment, transitional output costs will be less.

In short, the more substitution possibilities and the faster the economy can adapt, the lower the costs.

How the plan is implemented. Second, costs depend crucially on how emission reduction policies are implemented. It boils down to--if we do it dumb, it will cost a lot; if we do it smart, it will cost less. This conclusion was reflected in the statement signed by the over 2000 economists. They argued that any global climate change policy should be based on market-based mechanisms to minimize the costs to the US economy. These mechanisms allow for flexibility in both the timing and location of emission reduction.

- The speed at which emissions reductions occur has large effects on the estimated costs. If emissions reductions happen over a longer period of time, the natural turnover of the capital stock will incorporate newer, energy-efficient technology, lowering the ultimate economic costs of meeting the specified emissions target. Similarly, longer lead times until the emissions constraints are binding would permit a more orderly fuel-switching process, preventing bottlenecks that can drive up the estimated costs.
- Issuing emission permits and allowing firms to trade among themselves will insure that emission reduction will occur at the lowest possible cost within the United States.
- International emission permits and trading applies the same cost-minimizing principle globally.
- So-called "banking" and "borrowing" allows firms to change to timing of their emission reductions so as to minimize costs.
- Joint implementation, where US firms get credit for undertaking emission reduction in countries with low abatement costs, would also lower the domestic burden.

An additional aspect of implementation that has a profound effect on the costs of reducing emissions concerns "revenue recycling." In many of the model simulations, emissions are reduced either by selling permits to emit carbon, or by imposing a tax on carbon. In either case, the federal government ends up with significant revenues. How these revenues are used determines the costs of climate protection. For example, if the revenues are used to reduce distortionary taxes that diminish incentives to invest, save or work, the tax reduction can spur investment and growth. In other words, how the revenues are recycled has a big impact on costs.

What countries participate. The third lesson that emerges from a study of the economics of climate protection is that developing, as well as developed, countries must be part of the process. While developed countries are responsible for most of the greenhouse gas currently in the atmosphere, developing countries are starting to catch up. By 2020, the largest fraction of emissions will come from developing countries. Any comprehensive plan to deal with this global problem must have a mechanism and a timetable; to bring developing countries into the process.

The timing of the inclusion of developing countries is also important. First, the sooner that developing countries face incentives to move away from carbon intensive energy sources the less likely they will become dependent on those types of fuels to spur their economic growth. Second, if left outside the process, developing countries could serve as a haven for carbon-intestive industries from developed countries. In short global problems require global solutions.

Conclusion

Thank you. I would be happy to answer any questions you may have.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:13-JUL-1997 20:05:34.00

SUBJECT: Some minor revisions

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

CC: Michele Jolin (CN=Michele Jolin/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.D82]MAIL40062739J.116 to ASCII,
The following is a HEX DUMP:

Statement before the House Commerce Subcommittee on Energy and Power
Dr. Janet Yellen
Chair, President's Council of Economic Advisers
Tuesday, July 15, 1997

Good afternoon. Mr. Chairman and distinguished members of the Committee. I appreciate the opportunity to discuss with you today the economics of global climate change.

Introduction

In his speech to the United Nations General Assembly in June, President Clinton emphasized that the risks posed by global climate change are real and that sensible preventive steps are justified. This assessment accords with the views of the more than 2000 economists, including 8 Nobel laureates, who signed a statement supporting measures to reduce the threat of climate change. That statement endorses conclusions from last year's report by the Intergovernmental Panel on Climate Change (IPCC), which said that governments should take steps to reduce the threat of damage from global warming and that market-based policies can significantly reduce greenhouse gas emissions without harming the American economy.

At this time the Administration has not settled on a particular set of policies to reduce greenhouse gas emissions. Instead, the President indicated in his U.N. speech that he intends to open a dialogue with the American people to discuss the problems posed by greenhouse gas accumulations and to search for policy solutions. To this end, the President will hold a White House conference on climate change later this year, and Members of his Cabinet and other senior Administration officials will meet with scientific and economic experts, environmentalists, local government officials, and business and labor leaders on a regular basis over the next several months to discuss issues related to climate change. This process is intended to inform the Administration's decision-making process, which will culminate in a U.S. policy position in the international negotiations in Kyoto in December of this year.

In my testimony today, I would like to describe some of the principal lessons that emerge from the voluminous literature, much of it relatively recent, on the economic impacts of policies to address global climate change.

Underlying Uncertainties

Before I begin my discussion of the economics literature, I would like to first emphasize the great uncertainties associated with estimating both the costs and benefits of reducing greenhouse gas emissions. To provide some perspective: as you all know, it is difficult to gauge exactly what impact the balanced budget agreement will have on the U.S. economy's growth rate, levels of employment, interest rates and consumption over the next five years. But with global climate change, we are concerned with not just the next five years and not just the American economy. Rather, we are dealing with economic and physical processes that operate globally and over decades, if not centuries. The potential damages associated with increasing concentrations of greenhouse gases are not predicted to occur for many decades, and it is difficult to know which regions will get warmer and which will get cooler; which will get wetter and which will get drier; which will get stormier and which will get calmer. This means that the benefits of climate protection are very difficult to quantify. And, while the potential costs of reducing greenhouse gas emissions may be more immediate, they too, as I will discuss below, are difficult to predict with any certainty. Many unanswered questions exist about the biophysical systems, potential thresholds, and economic impacts. In short, if anybody tells you that he or she has the definitive answer as to the costs and benefits of particular climate change policies, I would suggest that you raise your collective eyebrows.

Lessons from the Economic Literature

Let me now turn to the economics literature and try to summarize what I think we know so far about this difficult topic. With a few notable exceptions, economists have generally not addressed the benefits of climate protection, but rather have focused on the costs associated with alternative paths for reducing greenhouse gas emissions. The economics literature includes estimates using many different models to evaluate numerous alternative emission reduction strategies. In fact, for this reason, economists initially faced difficulties in comparing results: they could not sort out the extent to which differences in results stemmed from differences in models and assumptions versus differences in baseline emission paths and policies. To solve this problem, thereby enabling meaningful comparisons, it is necessary to calibrate the various models by performing a standardized simulation. Several model comparison efforts have assessed the consequences of stabilizing greenhouse gas emissions at 1990 levels by 2010 or 2020.

To facilitate comparison with the broader literature, the Administration's Interagency Analysis Team (IAT)--a staff level group working to understand the economic implications of climate change policies--took the identical emissions scenario--stabilizing emissions at 1990 by 2010--as the starting point for their own analysis. The staff IAT report summarizing this work was released yesterday [OR will be released by the end of July], along with the reviewers comments.

The Lessons. Modeling efforts both inside and outside the Administration clearly indicate that economic analysis can do no more than estimate a range of potential impacts from particular policies and highlight how outcomes depend on underlying assumptions about how the economy works and the ways in which policy is implemented. However, the economics literature on climate change does point to several important lessons:

How the economy works. First, the magnitude of the costs of reducing greenhouse gas emissions in the various models depends crucially on a number of key assumptions about how the economy works. For instance:

- If firms in the economy can shift from high carbon to low carbon energy sources quickly, the costs of climate protection will be lower.
- If there are significant opportunities, even now, to employ energy-saving technology at low or even negative costs, the costs of climate protection will be

lower.

- If technological change occurs at a rapid rate, or is highly responsive to increases in the price of carbon emissions, the costs will be reduced.

- If the Federal Reserve pursues a monetary policy oriented toward keeping the economy at full employment, transitional output costs will be lower.

In short, the greater the substitution possibilities and the faster the economy can adapt, the lower the costs.

How the plan is implemented. Second, costs depend crucially on how emission reduction policies are implemented. It boils down to this: if we do it dumb, it could cost a lot, but if we do it smart, it will cost much less and indeed could produce net benefits. The over 2000 signatories of the economists' statement argued that any global climate change policy should be based on market-based mechanisms because such mechanisms allow for flexibility in both the timing and location of emission reductions, thereby minimizing the costs to the U.S. economy. The economists concluded that "there are policy options that would slow climate change without lowering American living standards and these measures may in fact improve productivity in the longer run."

- The speed at which emissions reductions occur has large effects on the estimated costs. If emissions reductions are phased in over a longer period of time, the natural turnover of the capital stock will incorporate newer, energy-efficient technology, lowering the ultimate economic cost of meeting any specified emissions target. Similarly, longer lead times until emissions constraints are binding permits the development of new technologies and allows a more orderly fuel-switching process, preventing bottlenecks that can drive up the estimated costs.

- A "cap and trade" system in which emission permits are issued and then traded among firms can substantially reduce the cost of meeting an emissions target by creating incentives for emissions to be reduced by those firms and in those activities where costs are lowest.

- International emission permit trading substantially lowers costs by applying the same cost-minimizing principle globally.

- So-called "banking" and "borrowing" of permits increases flexibility and lowers costs by allowing firms to change the timing of their emission reductions.

- Joint implementation, whereby US firms would receive credit for undertaking emission reductions in countries with low abatement costs, would also lower the domestic burden.

An additional aspect of implementation that profoundly affects the costs of reducing emissions concerns "revenue recycling." In many model simulations, emissions are reduced either by selling permits to emit carbon, or by imposing a carbon tax. In either case, the Federal government realizes an increase in revenues. Economic growth can receive a long-term boost if these revenues are used to reduce distortionary taxes that diminish the incentive to invest, save or work, or if the revenues are channeled into deficit reduction, thereby lowering interest rates and boosting investment. In fact, in some models and scenarios, emissions reduction generates a net economic benefit when the revenues are recycled in a growth-promoting fashion.

What countries participate. The third lesson that emerges from a study of the economics of climate protection is that developing, as well as developed, countries must be part of the process. While developed countries are responsible for most of the greenhouse gas currently in the atmosphere, developing countries are starting to catch up. By 2020, the largest fraction of emissions will come from developing countries. Thus, any comprehensive plan to deal with this global problem must include a mechanism to bring developing countries into the process.

The timetable for the inclusion of developing countries is also important. First, the sooner that developing countries face incentives to move away from carbon intensive energy sources, the less likely it is that they will become dependent on those types of fuels to spur their economic growth. Second, if left outside the process, developing countries could serve as a haven for carbon-intestive industries from developed countries. In short global problems require global solutions.

Conclusion

Policies to promote economic growth, create jobs, and improve the living standards and opportunities of all Americans have been and always will remain the top priority of the President and his Administration. In his remarks to Business Roundtable on global climate change, the President said "[l]et's find a way to preserve the environment, to meet our international responsibilities, to meet our responsibilities to our children, and grow the economy at the same time."

Let me conclude by highlighting the key economic lessons we have learned that will help us achieve the President's goal:

- Inherent uncertainty dictates that models should only be expected to generate a range of economic impacts, not definitive answers.
- Key assumptions about how the economy works directly influence the estimated costs of climate protection.

- Implementation of any policy needs to be market-based and maximally flexible over time and space.

- All nations, both developed and developing, need to participate.

Thank you. I would be happy to answer any questions you may have.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:13-JUL-1997 18:46:26.00

SUBJECT: text for conclusion

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

TEXT:
Conclusion

President Clinton has made economic growth and job creation top priorities in his Administration. And in his remarks to Business Roundtable on global climate change, the President said &[l]et,s find away to preserve the environment, to meet our international responsibilities, to meet our responsibilities to our children, and grow the economy at the same time.8

Once again, let me highlight to key economic lessons learned that will help us achieve the President,s goal:

Inherent uncertainty dictates that models should only be expected to generate a range of economic impacts not definitive answers.

Key assumptions about how the economy works directly influence the estimated costs of climate protection.

Implementation of any policy needs to be flexible and well-designed.

All nations need to participate, both developed and developing countries

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:14-JUL-1997 13:47:39.00

SUBJECT: Here is your testimony

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.D41]MAIL46270549B.116 to ASCII,
The following is a HEX DUMP:

*** DRAFT ***

Statement before the House Commerce Subcommittee on Energy and Power

Dr. Janet Yellen

Chair, Council of Economic Advisers

Tuesday, July 15, 1997

Good afternoon, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to discuss with you today the economics of global climate change.

Introduction

In his speech to the United Nations General Assembly in June, President Clinton emphasized that the risks posed by global climate change are real and that sensible preventive steps are justified. This assessment accords with the views of the more than 2000 economists, including 8 Nobel laureates, who signed a statement supporting measures to reduce the threat of climate change. The economists endorsed the conclusions from last year's report by the Intergovernmental Panel on Climate Change (IPCC), which said that governments should take steps to reduce the threat of damage from global warming, and went on to argue that market-based policies can significantly reduce greenhouse gas emissions without harming the American economy.

At this time the Administration has not settled on a particular set of policies to reduce greenhouse gas emissions. Instead, the President indicated in his U.N. speech that he intends to engage in a discussion with all interested parties about the problems posed by greenhouse gas accumulations and to search for appropriate policy solutions. To this end, the President will hold a White House conference on climate change later this year, and Members of his Cabinet and other senior Administration officials will meet with Members of Congress, scientific and economic experts, environmentalists, local government officials, and business and labor leaders on a regular basis over the next several months to discuss issues related to climate change. This process is intended to inform the Administration's decision-making process, which will culminate in a U.S. policy position in the international negotiations in Kyoto in December of this year.

An important step in this -- and any -- policy process is determining the impact it will have on the American economy. President Clinton's top priority, since his first days in office, has been revitalizing the U.S. economy, creating jobs and investing in people and technology to enhance long-term growth. And, we have made tremendous progress. Ensuring that any global climate change policy will not reverse our hard-fought progress will be a central part of our policy effort.

In my testimony today, I would like to describe some of the principal lessons that emerge from the voluminous literature, much of it relatively recent, on the economic impacts of policies to address global climate change.

Underlying Uncertainties

Before I begin my discussion of the economics literature, I would like first to emphasize the great uncertainties associated with estimating both the costs and benefits of reducing greenhouse gas emissions. To provide some perspective: as you all know, it is difficult to gauge exactly what impact the balanced budget agreement will have on the U.S. economy's growth rate, levels of employment, interest rates and consumption over the next five years. But with global climate change, it is orders of magnitude more difficult to gauge the effects on the economy: we are concerned with not just the next five years and not just the American economy, but, rather, we are dealing with economic and physical processes that operate globally and over decades, if not centuries. As the global climate changes, it is difficult to know with precision which regions will get warmer and which will get cooler; which will get wetter and which will get drier; which will get stormier and which will get calmer. This means that the benefits of climate protection are very difficult to quantify. And, while the potential costs of reducing greenhouse gas emissions may be more immediate, they too, as I will discuss below, are difficult to predict with any certainty. Many unanswered questions exist about the biophysical systems, potential thresholds, and economic impacts. In short, if anybody tells you that he or she has the definitive answer as to the costs and benefits of particular climate change policies, I would suggest that you raise your collective eyebrows.

Lessons from the Economic Literature

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The Administration's Interagency Analysis Team (IAT)--a staff level group working to understand the economic implications of climate change policies--took the emissions scenario most-often used in the academic literature-- that is, stabilizing emissions at 1990 by 2010--as the starting point for their own analysis. The IAT used three different models and a common baseline, and to the maximum extent possible the same set of assumptions on how the economy works. The results of this modeling exercise fell within the range found in the broader literature on the economic effects of climate protection. These results were sent out to 12 peer reviewers, who raised a range of questions, including the appropriateness of the models and the assumptions used. A draft of the IAT report that summarizes this work was given to the Subcommittee this morning, along with the reviewers comments. I would be happy to answer any questions you may have about the staff modeling effort.

The Lessons. Modeling efforts both inside and outside the Administration clearly indicate that economic analysis can do no more than estimate a range of potential impacts from particular policies and highlight how outcomes depend on underlying assumptions about how the economy works and the ways in which policy is implemented. However, the economics literature on climate change does point to several important lessons:

How the economy works. First, the magnitude of the costs of reducing greenhouse gas emissions in the various models depends crucially on a number of key assumptions about how the economy works. For instance:

- If firms in the economy can shift from high-carbon to low-carbon energy sources quickly, the costs of climate protection will be lower.
- If the economy has significant opportunities, even now, to employ energy-saving technology at low costs, the costs of climate protection will be lower.
- If technological change occurs at a rapid rate, or is highly responsive to increases in the price of carbon emissions, the costs will be reduced.
- If the Federal Reserve pursues a monetary policy oriented toward keeping the economy at full employment, transitional output costs will be lower.

In short, the greater the substitution possibilities and the faster the economy can adapt, the lower the costs.

How the plan is implemented. Second, costs depend critically on how emission reduction policies are implemented. It boils down to this: if we do it dumb, it could cost a lot, but if we do it smart, it will cost much less and indeed could produce net benefits. The over 2000 signatories of the economists' statement argued that any global climate change policy should be based on market-based mechanisms because such mechanisms allow for flexibility in both the timing and location of emission reductions, thereby minimizing the costs to the U.S. economy. The economists concluded that "there are policy options that would slow climate change without lowering American living standards and these measures may in fact improve productivity in the longer run."

- The speed at which emissions reductions occur has large effects on the estimated costs. If emissions reductions are phased in over a longer period of time, the natural turnover of the capital stock will incorporate newer, energy-efficient technology, lowering the ultimate economic cost of meeting any specified emissions target. Similarly, longer lead times until emissions constraints are binding permits the development of new technologies and allows a more orderly fuel-switching process, preventing bottlenecks that can drive up the estimated costs.
- A "cap and trade" system in which emission permits are issued and then traded among firms can substantially reduce the cost of meeting an emissions target by creating incentives for emissions to be reduced by those firms and in those activities where costs are lowest.
- International emission permit trading substantially lowers costs by applying the same cost-minimizing principle globally.
- So-called "banking" and "borrowing" of permits increases flexibility and lowers costs by allowing firms to change the timing of their emission reductions.
- Joint implementation, whereby US firms would receive credit for undertaking emission reductions in countries with low abatement costs, would also lower the

domestic burden.

An additional aspect of implementation that profoundly affects the costs of reducing emissions concerns "revenue recycling." In many model simulations, emissions are reduced by using various market mechanisms. In many scenarios, the Federal government realizes an increase in revenues. Economic growth can receive a long-term boost if these revenues are used to reduce distortionary taxes that diminish the incentive to invest, save or work, or if the revenues are channeled into deficit reduction, thereby lowering interest rates and boosting investment. In fact, in some models and scenarios, emissions reduction generates a net economic benefit when the revenues are recycled in a growth-promoting fashion.

Which countries participate. The third lesson that emerges from a study of the economics of climate protection is that developing, as well as developed, countries must be part of the process. While developed countries are responsible for most of the greenhouse gas currently in the atmosphere, developing countries are starting to catch up. By 2040, the largest fraction of emissions is estimated to come from developing countries. Thus, any comprehensive plan to deal with this global problem must include a mechanism to bring developing countries into the process.

The timetable for the inclusion of developing countries is also important. The sooner that developing countries face incentives to move away from carbon intensive energy sources, the less likely it is that they will become dependent on those types of fuels to spur their economic growth. In short global problems require global solutions.

Conclusion

Let me conclude. Policies to promote economic growth, create jobs, and improve the living standards and opportunities of all Americans have been and always will remain the top priority of the President and his Administration. In his remarks to Business Roundtable on global climate change, the President said "[l]et's find a way to preserve the environment, to meet our international responsibilities, to meet our responsibilities to our children, and grow the economy at the same time."

Some of the key economic lessons we have learned that will help us achieve the President's goal include:

- Inherent uncertainty dictates that models should only be expected to generate a range of economic impacts, not definitive answers.
- Key assumptions about how the economy works directly influence the estimated costs of climate protection.
- Implementation of any policy needs to be market-based and maximally flexible over time and space.
- All nations, both developed and developing, need to participate.

Thank you. I would be happy to answer any questions you may have.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christopher D. Carroll (CN=Christopher D. Carroll/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:14-JUL-1997 15:28:04.00

SUBJECT:

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

CC: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Janet and Alicia:

FYI, there is a piece in today's Wall Street Journal, page C-1, about variable annuities. What's interesting about the article is that it is written as though actually "annuitizing" the annuity (converting it to a series of monthly payments) were a rare and surprising option that many "investors" did not even know about! (I'm exaggerating a little bit, but not a lot). There's also a big ad touting the tax advantages of annuities and noting that they are a way around the limits on 401(k) and IRA contributions.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JUL-1997 13:42:16.00

SUBJECT: Electricity #7 -- TVA, Labor, Universal Service redux, International

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

TO: Kathleen M. Wallman (CN=Kathleen M. Wallman/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

CC: Cristian J. Santesteban (CN=Cristian J. Santesteban/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
During what I believe to be the penultimate interagency staff meeting on retail electricity legislation, we briefly discussed four issues: TVA, labor transition, universal service, and international issues. All of these discussions were brief and can be appropriately summarized.

TVA

DOE has proposed that TVA be made subject to open access requirements for its transmission grid. Because the potential for taxpayer exposure regarding TVA's stranded costs is quite high, DOE proposed conducting a study of TVA's stranded costs and deferring implementation of open access rules, if necessary, until stranded cost recovery mechanisms are instituted.

TVA wants little to none of this. They want no FERC authority over their grid, and a legislative prohibition on retail competition in areas served by TVA. The TVA board would continue to regulate access to TVA's transmission grid. Others would not be allowed to sell power into TVA's territories while TVA is barred from exporting power. It is safe to say that these proposals were so far from how the Administration is viewing the evolution of the industry that TVA was essentially instructed to go back to its drawing board.

Labor transition

The Department of Labor has voiced concern that retail competition might displace workers at utilities. Whether the net effect of retail competition on employment in the electricity industry is unclear; one would expect that an expanding industry would want to increase, not decrease hiring.

DoL is not seeking a federal mandate or funding of transition programs, mostly because the unions seem to believe that they can do well in cutting deals at the state level. Most of the discussion centered on DoL's transmission of the unions' wish that any federal "principle" in favor of stranded costs recovery should apply to workers as well as firms. While most in the room appeared reasonably disposed to consider assistance to displaced workers, if any, in the electricity industry, there was substantial resistance from me and others to the idea of labeling transition relief a "stranded cost":

1) Stranded costs refer to undepreciated, unmitigated, sunk investments that cannot be recovered as a result of regulatory change. The DoL person had not the slightest idea how large such costs would be for electricity workers.

2) Stranded costs also refer to a "breach" of an "implicit compact" between regulators and regulated firms. There was no such contract between regulators and workers in these firms.

3) Many were concerned that a statement of a federal principal treating workers as worthy claimants of stranded cost recovery as a result of a federal policy change would establish similar rights of action by workers in other industries, e.g., defense.

DoL's main argument was that the union's wanted to call their claim a "stranded cost" because they thought such a designation would make their claims more politically secure. The DoL person was asked to consider whether it would be satisfactory for the Administration to voice support for transition payments, without calling such payments recover of stranded costs.

Universal service

USDA again appealed for either a separate funding mechanism or specific "public benefits fund" earmarking for "rural, low income" electricity customers. Unfortunately, the implied conjunction is an "or", not an "and." USDA supports funding for rural customers regardless of their wealth, on the grounds that they live in places where the cost of electricity is greater. I recited the trite litanies, e.g., Ted Turner should get subsidized electricity for his Montana ranch. I might add a point made by Treasury or OMB staff, I think, that urban people have high costs of land, food, and other items, and yet do not get systematic subsidies because they pay higher than average prices for those items. I suggested that we divorce the case of low-income user subsidies, which may be questionable themselves as an inefficient and tiny means for alleviating poverty, from rural claims, which seem even more questionable for households with average or greater income.

EPA, notably, pointed out that retail competition in generation would not affect transmission and distribution, which are where the high fixed costs of serving rural customers lie. Accordingly, there was some dispute as to whether retail competition pertained to USDA's concern. USDA claimed that industrial consumers rather than residential consumers were likely to get the best deals. However, industrial consumers are already getting deep volume discounts. Expanding retail competition is the best way to give residential users, through independent marketers, equivalent "clout" in buying electricity, implying the USDA's prediction may be the reverse of what will happen.

International

Doug Smith of DOE spent just a minute on international issues, having to do with the importation of power from Canada, primarily. DOE is still thinking about this area, but seems likely to recommend that FERC be given clear authority over access to power lines running between the U.S.-Canada border and the first transmission substation. He also suggested that FERC be given authority to oversee imports into the U.S., particularly when overall grid reliability would be an issue.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Daniel L. Goroff (CN=Daniel L. Goroff/OU=OSTP/O=EOP [OSTP])

CREATION DATE/TIME:15-JUL-1997 16:07:25.00

SUBJECT: Re: tuition wavers

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

CC: Clifford J. Gabriel (CN=Clifford J. Gabriel/OU=OSTP/O=EOP @ EOP [OSTP])
READ:UNKNOWN

CC: Mark J. Mazur (CN=Mark J. Mazur/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

Sybil Francis (CN=Sybil Francis/OU=OSTP/O=EOP [OSTP])
READ:UNKNOWN

Jeffrey M. Smith (CN=Jeffrey M. Smith/OU=OSTP/O=EOP [OSTP])
READ:UNKNOWN

Holly L. Gwin (CN=Holly L. Gwin/OU=OSTP/O=EOP [OSTP])
READ:UNKNOWN

TEXT:
Janet:

Your last e-mail suggested a "review of the entire agenda" we had been corresponding about. Of the tax issues currently before Congress that concern universities, two are of particular interest to OSTP because of their potential impact on research.

The most important issue is graduate student support. Section 117(d) currently exempts graduate research and teaching assistants from tax on tuition waivers. The Senate-passed version of H.R. 2014 leaves this in place. The House-passed version would phase out the exemption. Secretary Rubin,s letter of July 3 to the Conferees does not mention this matter, but refers instead to the extension of Section 127, a different tax exemption for employer-provided educational assistance (see below). For this reason, Dr. Gibbons has drafted a letter to the Conferees specifically about 117(d). OMB will be in touch with you officially about this LRM, but a preliminary version is attached for your information.

A second tax matter before Congress is the legislation in H.R. 197 and S. 121 to repeal the $150 million cap on tax exempt financing imposed in 1986 on private colleges and universities. The original intent was to eliminate bond arbitrage activities, but other rules now prevent this. The cap adds significantly to construction and renovation costs on 30 private campuses. Capital renewal and replacement in higher education generally is an urgent need, especially when it comes to laboratories. The National Science Foundation estimates that for every $1.00 spent to maintain research facilities, another $3.50 was deferred, and that for every $1.00 spent for new science facilities, $4.25 was deferred.

The remaining tax issues have less to do with science particularly. The House was probably aiming to do away with tax-free tuition aid for the families of college faculty and staff when it eliminated 117(d) and endangered graduate students as well. The Senate Bill is silent on this, but reports indicate that key Members of the Ways and Means Committee particularly favor taxing such benefits. One cause may be a Wall Street Journal article published on April 15 entitled "Teacher,s Perk: How Can You Beat the High Cost of College? Become a Professor."

The House bill contains a provision instituting a tax on contingency reserve funds built up by TIAA-CREF, a nonprofit organization that provides faculty and research pensions. This would not affect the tax-deferred status of an individual's accumulation, but would ultimately reduce benefits. Without referring to its insurance operations particularly, the longstanding tax exemption for TIAA-CREF was derided in Business Week on July 14 as a business break amounting to "corporate welfare."

The House bill would restore Section 127, the tax exemption for employer-paid educational assistance, only through the end of this year and only for undergraduate students. The Senate bill would make this a permanent exemption for up to $5,250 per year of employer-paid tuition for both undergraduate and graduate students. Neither this nor the Hope Scholarship plan reduces the importance of maintaining 117(d) as it applies to graduate students.

Secretary Rubin,s letter to the Conferees does mention support for the Senate,s version of Section 127, and for the Senate,s version of a student-loan interest deduction and loan forgiveness exemption. Of course, he also discusses the HOPE Scholarship and Tuition Credit plans in detail.

As the draft from Dr. Gibbons notes, OSTP is leading a review of stresses on the relationship between research universities and the federal government. Let,s keep in touch about this and about human capital issues generally.

Best regards,

Danny

****
****

- DRAFT-

July 15, 1997

United States Senate
Washington, D.C. 20510

Dear Conferee:

A provision of H.R. 2014, the Taxpayer Relief Act of 1997, would delete Section 117(d) of the U.S. tax code, which excludes tuition waivers from taxation when they are granted to college and university employees. I am especially concerned about the impact of this provision on graduate teaching and research assistants and on the science and technology enterprise as a whole. Should the provision prevail in the Conference Committee and the bill signed into law, it could drain Federal dollars away from the performance of research and impede development of the next generation of scientists and engineers.

The Federal government plays an important role in making the U.S. higher education system the best in the world, particularly through its support of university-based research. One of the unique features of our higher education system is the strong linkage between research and education. Many universities and colleges grant tuition waivers to their graduate teaching and research assistants, and the tax code currently excludes such tuition waivers from taxation. Treating tuition waivers as taxable income, as provided for by H.R. 2014, has the potential to impose a significant tax burden on graduate students, whose disposable income is most often in the form of stipends that usually amount to no more than $15,000 per year. But the problem extends beyond that of the financial circumstances of individual graduate students to the more general issue of Federal funds available for research and for the development of the next generation of scientists and engineers. If graduate students become taxable on their tuition waivers, the scientists who provide them with the research and teaching experience will either have to use part of their research grants to gross up the stipends they pay, reducing the amount of Federal funds available for research, or risk losing talented young scientists who cannot afford the financial burden of graduate school.

Investments in research and education today are key to the nation,s prosperity, security, and quality of life in the knowledge-driven society of the twenty-first century. The President is committed to education at all levels, and is especially concerned about maintaining the health of university-based science and technology. At the President,s request, the National Science and Technology Council is reviewing the status of the government-university partnership in order to make recommendations for improving the policies, programs, and regulations that shape it, and to make it more efficient. We must do all we can to ensure that universities remain a vital component of the U.S. science and technology enterprise. As we work towards a balanced budget, we must also devise policies that enable us to get as much research out of each Federal dollar as possible.

If the House-passed provision making graduate student tuition waivers taxable prevails, it would send the wrong message about government priorities in science and technology. We urge you to drop this provision from the bill in light of the negative impact it would have on scientific research and education.

Sincerely,

John H. Gibbons
Assistant to the President
for
Science and Technology

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-JUL-1997 18:18:32.00

SUBJECT: Re:

TO: Christopher D. Carroll (CN=Christopher D. Carroll/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Could you xerox the article and give me a copy. We are now scheduled to see the President on Friday and that would be interesting by way of preparation.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mark J. Mazur (CN=Mark J. Mazur/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-JUL-1997 19:16:18.00

SUBJECT: argonne study price increases

TO: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

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

TEXT:
Folks,
I called Howard Gruenspecht of DOE about this study and he said that the study participants were given hypothetical energy price increases by energy source (e.g., so much per barrel of oil, so much per ton of coal, etc.) for 2 scenarios. These price increases correspond roughly (but only roughly) to carbon taxes of:

Scenario 1: $100 in Europe, $150 in US, $200 in Japan, nothing in developing countries

Scenario 2: $100 in Europe, $100 in US, $175 in Japan, nothing in developing countries

The Argonne study was careful not to put these in terms of carbon taxes, but the conversion is relatively simple (you can just take the coal price increase and divide by 0.7 to get the approximate implied carbon tax -- I would have used 0.6 in the denominator).

Anyway, this should give us the material we need to respond to the question posed at the House subcommittee hearing.

Mark

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Daniel L. Goroff (CN=Daniel L. Goroff/OU=OSTP/O=EOP [OSTP])

CREATION DATE/TIME:18-JUL-1997 23:02:36.00

SUBJECT: great editorial

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

CC: Mark J. Mazur (CN=Mark J. Mazur/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Janet: Congratulations on the excellent editorial in today's Times. It was short, strong, and important. Thanks also to you and Mark for helping this office bring up the tuition waivers issue that was not mentioned in Secretary Rubin's letter. --Danny

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-JUL-1997 10:24:50.00

SUBJECT: IO Staff Economist

TO: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/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:
I talked to Aaron Edlin about finding an IO staff economist (to replace Cristian). He is going to talk to some Berkeley and Standford grad students and see if he can come up with someone good. If he doesn't have any luck, then we can make calls to harvard, MIT, Princeton, etc. to see if they have anyone good.
Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-JUL-1997 09:11:58.00

SUBJECT: MESSAGE FROM JEFF re Fast track

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

TEXT:
---------------------- Forwarded by Lisa D. Branch/CEA/EOP on 07/18/97
09:06 AM ---------------------------

Jeffrey A. Frankel
07/18/97 08:40:00 AM
Record Type: Record

To: John D. Montgomery
cc: Lisa D. Branch, Caroline Thompson
Subject: Fast track

Message Creation Date was at 18-JUL-1997 08:40:00

Janet/Alice.
Is there time in Janet's schedule for a Janet-me-John (and Carrie)
meeting
today before the 2:30 NEC principles meeting on fast-track? How about 11
a.m.? (Or else 9:15?)

Janet and John:
I think we want to support
(1) discussion of possible future WTO round, unless this is out of order;
(2) emphasis on, e.g., comprehensive FTAA, rather than agreemtns specific
to
particular sectors and/or countries in the Pacific; and (3)
trade/labor-or-environment connections only when intrinsic to the issue,
Thus
I agree with John (and Larry and Berger, apparently) in the following memo.
JF

---------------------- Forwarded by Jeffrey A. Frankel/CEA/EOP on 07/18/97
08:32 AM ---------------------------

John D. Montgomery
07/17/97 02:54:00 PM
Record Type: Record

To: Jeffrey A. Frankel
cc: Caroline Thompson
Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

Jeff,

There is a principals meeting tomorrow on fast-track. (Are you
attending?)
This is a follow-uup to a meeting held yesterday, which Janet and I
attended.
In preparation for tomorrow's meeting, she asked me to give some thought
to
what CEA's position on various fast-track related issues should be. This
e-mail describes yesterday's meeting and some of the outstanding issues.
Could
you please give me your views, or can we talk?

Yesterday's meeting was chaired by Tarullo, and attended by Berger, Rubin,
Summers, Eizenstat, Daley, Herman, Sperling, McClarty, and Barshefsky,
among
others. Tarullo said that he wanted to decide on what to present to
Congress
by the end of the week, so he could present it to the President over the
weekend.

Given that timetable, I was surprised at the amount of uncertainty and
disagreement in the room. Barshefsky made a pitch for FTAs negotiations
with
Chile and with some Pacific countries (Australia, New Zealand, Singapore,
and
maybe the Philippines), with the FTAA in the background but not formally
part
of the fast-track request. South Africa is a fainter possibility. She
also
pitched for a set of sectoral liberalization initiatives (a la ITA), which
they
are currently proposing to APEC. (The U.S. proposals in APEC are
chemicals,
energy-related equipment and services, oilseeds and oilseed products, and
automotive initiative, and MRAs in telecommunications and information
technology equipment. Other countries may also make proposals.) Finally,
she
said the built-in agenda in the WTO would require fast-track. This
includes
agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the
approach
of choosing trade strategies based on political support (which was one
reason
Eizenstat suggested Central Europe and Barshefsky suggested Australia/New
Zealand and the Philippines) rather than on economic [and strategic?]

benefits. Summers gently suggested that we ought to have a sense of our longer
term trade negotiation strategy, especially regarding when and whether to have
a new GATT negotiating round. Berger noted that the President wants an FTAA,
so Latin American shouldn't be forgotten, despite the greater (NAFTA-related)
political opposition. Barshefsky noted that the success of sectoral
initiatives depends on Europe's attitude, but Leon Brittan has stated that any
new sectoral initiatives (except an extension of the ITA) must wait until the
initiation of a new round, to which Summers replied that maybe we should focus
on a new round, but Tarullo said that probably was premature. Barshefsky said
that we will want the fast-track bill to have enough flexibility to accomodate
proposals in 1998 or 1999 to start a new round, without the bill being specific
about a new round.

My sense is that these issues are still open, and may be revisited at the
principal's meeting on Friday. (Are you planning to attend this?) It is
unfortunate that we have not been invited to participate in the working group
chaired by Bob Kyle on this issue. We could have improved the clarity of
thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be
continued on Friday. The "Gebhardt" approach of making labor standards a trade
practice actionable under Section 301 and WTO dispute settlement is a
non-starter (fortunately) in Congress, because Republicans would not vote for
it. Republicans may agree to an approach of allowing language on labor and
environment if it spefically pertains to trade (e.g., an environmental
regulation used as a discriminatory trade barrier). However, the GOP doesn't
trust the Administration to carry this out in good faith and not bend the
letter of the law or negotiate side-agreements (which don't have to be approved
by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I
would think our view should be that labor and environment should be in trade
negotiations only where there are specific connections to trade issues.

2. Decide whether we can add anything to the type of negotiations that should be covered by fast-track authority. I would like to see us throw some cold water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-JUL-1997 08:40:23.00

SUBJECT: Fast track

TO: MONTGOMERY_J (MONTGOMERY_J @ A1 @ CD @ LNGTWY [UNKNOWN]) (CEA)
READ:UNKNOWN

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

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

CC: BRANCH_L (BRANCH_L @ A1 @ CD @ LNGTWY [UNKNOWN]) (WHO)
READ:UNKNOWN

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

THOMPSON_CM (THOMPSON_CM @ A1@CD@LNGTWY [UNKNOWN]) (WHO)
READ:UNKNOWN

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

TEXT:
Janet/Alice.
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John D. Montgomery
07/17/97 02:54:00 PM
Record Type: Record

To: Jeffrey A. Frankel
cc: Caroline Thompson
Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

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of choosing trade strategies based on political support (which was one
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Eizenstat suggested Central Europe and Barshefsky suggested Australia/New

Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer
term trade negotiation strategy, especially regarding when and whether to have
a new GATT negotiating round. Berger noted that the President wants an FTAA,
so Latin American shouldn't be forgotten, despite the greater (NAFTA-related)
political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any
new sectoral initiatives (except an extension of the ITA) must wait until the
initiation of a new round, to which Summers replied that maybe we should focus
on a new round, but Tarullo said that probably was premature. Barshefsky said
that we will want the fast-track bill to have enough flexibility to accomodate
proposals in 1998 or 1999 to start a new round, without the bill being specific
about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to participate in the working group
chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be
continued on Friday. The "Gebhardt" approach of making labor standards a trade
practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for
it. Republicans may agree to an approach of allowing language on labor and
environment if it spefically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't
trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved
by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I
would think our view should be that labor and environment should be in trade

negotiations only where there are specific connections to trade issues.

2. Decide whether we can add anything to the type of negotiations that should
be covered by fast-track authority. I would like to see us throw some cold
water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations.
(Think of the horrendous rules-of-origin problems that an FTA with Singapore
would create.) I think we should push for a clear strategy for moving to a new
round where some progress could be made on: (a) barriers in protected sectors
like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on
AD/CVD, and (c) trade and competition policy.

John

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Records Management at 08:07:30.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/21/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JUL-1997 08:07:30.00

SUBJECT: Official USSS WAVES Request - Records Management Document

TO: Records Management (Records Management @ EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Requestor: Yellen, Janet
Requestor Phone: 3955042
Requestor Pass Type: WHS
Appointment With: Yellen, Janet
Appointment Room: 314
Appointment Date: 7/21/97
Appointment Building: Old Executive Office Building
UNumber:
Comments:

Visitors
Time Last Name First Name DOB
Cit COA SSN
09:30:00 AM AKERLOF ROBERT
[redacted] Y US [redacted]

[001]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1997 20:02:47.00

SUBJECT: Re: ERP and the Cluster Mtgs

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

TEXT:
You're more than welcome! -- TB

Janet L. Yellen
07/21/97 07:01:07 PM
Record Type: Record

To: Timothy J. Brennan/CEA/EOP
cc:
Subject: Re: ERP and the Cluster Mtgs

Many thanks for the very helpful suggestions concerning the ERP. The idea about electronic commerce and patents/copyrights is really interesting and hasn't been done. The suggestion about avoiding later potential conflicts also mirrors my own thinking.

Thanks again for everything that you have done this year. We have dumped a shameless amount of work on you and we all very much appreciate the expertise, professionalism and good cheer that you have brought to all of these assignments.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JUL-1997 19:01:02.00

SUBJECT: Re: ERP and the Cluster Mtgs

TO: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Many thanks for the very helpful suggestions concerning the ERP. The idea about electronic commerce and patents/copyrights is really interesting and hasn't been done. The suggestion about avoiding later potential conflicts also mirrors my own thinking.

Thanks again for everything that you have done this year. We have dumped a shameless amount of work on you and we all very much appreciate the expertise, professionalism and good cheer that you have brought to all of these assignments.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1997 20:00:05.00

SUBJECT: Thank you!

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

TEXT:
Janet,

I just wanted to say that it's been a great pleasure it has been to get to know you and work with you here at the CEA. I think you have already brought a lot of great changes and improvements to the office. Your dedication to doing the right thing and willingness to sail against the breeze are comforting and inspiring. I'm so pleased that this place is in your hands, and I truly look forward both to reading about CEA accomplishments, and to knowing how much worse that bad things would be if you were not so willing to fight the fight.

I also very much appreciate your kind words about me, today and on other occasions. It has been a rough year at times, but the respect of my colleagues at all levels in the CEA are what make everything worth while. For that I'm especially grateful.

Thanks again, too, for coming out to lunch today. And I'll still be in and out to finish up the electricity stuff.

With very best wishes and my highest regard,

Tim Brennan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1997 16:43:20.00

SUBJECT: ERP and the Cluster Mtgs

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

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

CC: William B. English (CN=William B. English/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

CC: Cristian J. Santesteban (CN=Cristian J. Santesteban/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
I probably won't be in for the cluster group meeting later in the week, but I thought this might be a good time to pass along what few ERP chapter ideas I have.

1) The last two ERP micro chapters have featured telecom and electricity. I would dodge telecom this year (with one exception below), unless legislative efforts go forward to amend the Telecom Act in the face of complaints that it's competitive promise has not been realized. Electricity, could be different IF the Administration has a legislative proposal to push. Otherwise, we've probably said enough on those topics for a while, absent major new developments.

2) Janet has mentioned changes in financial regulation. That seems like a good idea to me, but I'm not as knowledgeable about those changes as she and Bill are.

3) Based on some conversations I had with others in the EOP while working on the last ERP, and some of the projects I've worked on, I think a good topic might be a review of economic issues associated with electronic commerce. Among the topics to be covered and analyzed might be:

a) Internet growth, pricing, congestion, and the need if any for policy in that area. (This is the telecom area worth covering.)

b) Intellectual property, particularly copyright. A sensible, dispassionate discussion of the economics of this could be a real contribution, in light of the WIPO treaties and legislative efforts along those lines that are already brewing.

c) Research and development policy: when subsidies are useful; how one might ascertain which industries deserve support, or when patents are enough (another IP issue) what markets can and cannot do, what some of the EOP and Commerce agencies are up to.

d) The economics of global electronic commerce and international trade and taxation, building on the just-released Magaziner report.

4) Last year's micro chapter also included whatever we had to say about environmental and land policy. You might want to think about having a separate chapter on those this year. Certainly the fraction of CEA's efforts that has been devoted to those issues has been enormous, probably exceeding anything other than the budget deal.

5) After last year's ERP came out, the Economist's "Economics Focus" column did an article on the "missing chapter," wondering why there was nothing in the ERP explicitly on education. The column went on to use the "government complementing markets" framework in the micro chapter to criticize the President's education plan then on the table. Since Aaron Edlin knows something about education financing, perhaps that could be a different focus of his efforts for the ERP, whether or not it falls within the "micro" chapter.

6) This last point reminds me of Jeff's observation that we don't have to cover everything every year.

7) It also reminds me that it's ERP chapters naturally reflect the interests of the senior economists charged with writing them. While I'm not sure that product liability or securities litigation are issues the CEA and President would want to highlight, there may be "law and economics" issues related to contract theory that might be up Aaron Edlin's alley and would be worth pursuing.

A final observation -- I chose last year's approach and topics intentionally to minimize what I thought might be political controversy down the road. Compared to what happened to other chapters, and after seeing Joe Stiglitz lose arguments with NEC staffers as to what might go into the ERP, I reluctantly concluded that by being unambitious I probably had done the right thing. I am not happy that we have to take such concerns into account, but it could save many people lots of trouble if a bit of attention is devoted up front to minimizing external department and internal EOP agency review down the road.

Hope this is of some use,

Tim

---------------------- Forwarded by Timothy J. Brennan/CEA/EOP on 07/21/97 03:52 PM ---------------------------

Michele Jolin 07/21/97 11:02:37 AM

Record Type: Record

To: All CEA Users
cc:
Subject: ERP and the Cluster Mtgs

We would like to begin initial discussions about the content of this year's ERP. At this week's cluster mtgs, please bring your ideas for ERP topics.
Thanks.
michele

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JUL-1997 20:00:05.00

SUBJECT: See you around

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

TO: William B. English (CN=William B. English/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

TO: Thomas A. Rhoads (CN=Thomas A. Rhoads/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: Sarah J. Reber (CN=Sarah J. Reber/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

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

TO: Ravi K. Sandill (CN=Ravi K. Sandill/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

TO: Michele Jolin (CN=Michele Jolin/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 J. Mazur (CN=Mark J. Mazur/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: Lael Brainard (CN=Lael Brainard/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Keith O. Fuglie (CN=Keith O. Fuglie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

TO: Jeremy B. Rudd (CN=Jeremy B. Rudd/OU=CEA/O=EOP [CEA])
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TO: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jason Shogren (CN=Jason Shogren/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

TO: Ha Y. Lee (CN=Ha Y. Lee/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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READ:UNKNOWN

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

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

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

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

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

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

Gustaf (Gustaf @ econ.berkeley.edu@inet [UNKNOWN])
READ:UNKNOWN

TEXT:
To everyone:

I'll be popping in my head from time to time to do some electricity stuff, clean out the last few papers, and get things set up for my predecessor, but I thought with the good-bye lunch and all that this would be the right time to thank everyone. As the cliche goes, "what a long strange trip it's been," but you all have done so much to make it fun. One best part of the job was learning so much from people so expert in things about which I knew next to nothing before coming here. The other was seeing how hard so many people will work to get things right and get things done to, at the end of the day, make this a better place. It's especially inspiring to see people do it when, time and again, all kinds of roadblocks stand in the way.

The best way to get hold of me is email: brennan@umbc2.umbc.edu. The professors' lifestyle being what it is, the best phone number for me is at home, 301-588-8624. Once the school year starts, the UMBC number will work more often, 410-455-3229.

I wish all of you and the CEA all the best. Like I said, I'll still be around, so it isn't good-bye, really. But before I come in and discover that I'm off the network ....

Take care, everybody,

Tim

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JUL-1997 11:11:18.00

SUBJECT: ERP and the Cluster Mtgs

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

TO: William B. English (CN=William B. English/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP [CEA])
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TO: Thomas A. Rhoads (CN=Thomas A. Rhoads/OU=CEA/O=EOP [CEA])
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READ:UNKNOWN

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

TEXT:
We would like to begin initial discussions about the content of this
year's ERP. At this week's cluster mtgs, please bring your ideas for ERP
topics.
Thanks.
michele

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JUL-1997 14:53:22.00

SUBJECT: Rebecca Blank

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

TEXT:
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 07/22/97 02:53 PM ---------------------------

Ron Klain @ OVP
07/22/97 09:00:06 AM
Record Type: Record

To: Janet L. Yellen/CEA/EOP
cc:
Subject: Rebecca Blank

You asked if the VP actually e-mails responses. He does. I am forwarding his response to you for authenticity purposes.
---------------------- Forwarded by Ron Klain/OVP on 07/22/97 09:03 AM ---------------------------

Albert Gore
07/21/97 07:52 PM
To: Ron Klain/OVP
cc:
Subject: Re: CEA Member

She sounds good to me. Tell Janet that I am fine with this selection.
Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Kathleen A. McGinty (CN=Kathleen A. McGinty/OU=CEQ/O=EOP [CEQ])

CREATION DATE/TIME:22-JUL-1997 20:16:45.00

SUBJECT: janet's presentation today

TO: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

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

TO: TARULLO_D (TARULLO_D @ A1 @ CD @ LNGTWY [UNKNOWN]) (OPD)
READ:UNKNOWN

CC: Wesley P. Warren (CN=Wesley P. Warren/OU=CEQ/O=EOP @ EOP [CEQ])
READ:UNKNOWN

CC: forrister_d (forrister_d @ btgcinema.com @ inet [UNKNOWN])
READ:UNKNOWN

CC: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Shelley N. Fidler (CN=Shelley N. Fidler/OU=CEQ/O=EOP @ EOP [CEQ])
READ:UNKNOWN

CC: David B Sandalow (CN=David B Sandalow/OU=CEQ/O=EOP @ EOP [CEQ])
READ:UNKNOWN

TEXT:
many requests from many attendees at today's meeting for copies of janet's remarks. (many kudos janet for a succinct and very lucid presentation!)

i don't advise we give copies immediately UNLESS we are prepared to represent it as fully considered and cleared admin position. (call me paranoid, but i think copies would have a way of growing many legs).

i do believe that it is such an important issue, however, that it really makes sense to get a couple of pages layed out and agreed to on this, with cea coordinating its development among other relevant agencies.

views????? thx.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. email	Michele Jolin to Janet L. Yellen at 16:27:20.00. Subject: Re: Rebecca Blank. (1 page)	07/22/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

- C. Closed in accordance with restrictions contained in donor's deed of gift.
- PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
- RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. email	Janet L. Yellen to Records Management at 22:31:42.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/22/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

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RR. Document will be reviewed upon request.

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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JUL-1997 22:31:42.00

SUBJECT: Official USSS WAVES Request - Records Management Document

TO: Records Management (Records Management @ EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Requestor: Yellen, Janet
Requestor Phone: 3955042
Requestor Pass Type: WHS
Appointment With: Yellen, Janet
Appointment Room: 314
Appointment Date: 7/23/97
Appointment Building: Old Executive Office Building
UNumber:
Comments:

Visitors
Time Last Name First Name DOB
Cit COA SSN
09:00:00 AM AKERLOF ROBERT [003]
[redacted] Y US [redacted]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JUL-1997 20:19:25.00

SUBJECT: janet's presentation today

TO: Peter R. Orszag (CN=Peter R. Orszag/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

TEXT:
Thanks to all of you for the help. Could you all work to prepare a few
pages for circulation and clearance?
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 07/22/97
08:17 PM ---------------------------

Kathleen A. McGinty
07/22/97 08:16:59 PM
Record Type: Record

To: TARULLO_D @ A1 @ CD @ LNGTWY, Gene B. Sperling/OPD/EOP, Janet L.
Yellen/CEA/EOP
cc: See the distribution list at the bottom of this message
Subject: janet's presentation today

many requests from many attendees at today's meeting for copies of janet's
remarks. (many kudos janet for a succinct and very lucid presentation!)

i don't advise we give copies immediately UNLESS we are prepared to
represent it as fully considered and cleared admin position. (call me
paranoid, but i think copies would have a way of growing many legs).

i do believe that it is such an important issue, however, that it really
makes sense to get a couple of pages layed out and agreed to on this, with
cea coordinating its development among other relevant agencies.

views????? thx.

Message Copied
To:____

David B Sandalow/CEQ/EOP
forrister_d @ btgcinema.com @ inet
Shelley N. Fidler/CEQ/EOP
Wesley P. Warren/CEQ/EOP
Todd Stern/WHO/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JUL-1997 19:47:30.00

SUBJECT: Humphrey Hawkins Notes Attached

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.D64]MAIL435917205.216 to ASCII,
The following is a HEX DUMP:

Main points of Greenspan's Humphrey-Hawkins Testimony

In contrast to previous practice, the House Banking Cmtte. will hear from three other FOMC members (Vice Chairman Rivlin, Governor Meyer and NY President McDonough). As a result, Greenspan may have been less inclined to express the views of the FOMC and more towards expressing personal views.

Greenspan was very upbeat on the economy and allocated most of his testimony to singing its praises.

Inflation is stable--which is a puzzle given the high level of resource utilization. The main explanation is probably:

- Productivity is growing rapidly as is evident from rising profit margins. Greenspan dismisses the official productivity data which seem to indicate otherwise.
- Other possibilities include:
    - The strong dollar has pared import prices and constrained the pricing behavior of domestic firms facing import competition;
    - increasing globalization of the economy;
    - increased deregulation;
    - reduced market power of labor unions;
    - changes in the pricing of health insurance;
- Some of these factors are temporary while others--especially the pace of productivity change--may be more permanent.

- Some of these explanations are inter-related.
    - The quicker application of new technologies has brought about a heightened sense of job insecurity--which has damped wage gains.

Capital and Capacity
- Technology has shortened lead times--enabling output to respond faster to an upsurge in demand. (However, lead times have lengthened in recent months.)
- Manufacturing capacity growth is increasing.

Labor markets
- The declines in the unemployment rate are not sustainable. The economy must slow or bottlenecks leading to increased inflation will appear.

The Economic Outlook

- Demand seems to be slowing after unsustainable growth during the winter quarters--especially in consumer durables.

- The FOMC foresees a slowdown in GDP growth and a slight pickup in CPI inflation.

The Economic Forecast

	1997		1998	
	FOMC central tendency	MSR	FOMC central tendency	MSR
Nominal GDP	5 to 5½	5.2	4½ to 5	5.2
Real GDP	3 to 3¼	3.0	2 to 2½	2.4
CPI	2¼ to 2½	2.4	2½ to 3	2.6
U. Rate (Q4)	4¾ to 5	4.9	4¾ to 5	5.3

Greenspan incanted the usual mantra about how the Fed must remain vigilant against inflation.

Market reaction

- The Dow-Jones Industrial Average rose 155 points--about 100 of which occurred after Greenspan's testimony began at 2:00 pm.
- The yield on the 30-year Treasury bond fell about 8 basis points after the start of Greenspan's testimony.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JUL-1997 20:02:53.00

SUBJECT: Macro Talking Points

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.D97]MAIL41192720J.216 to ASCII,
The following is a HEX DUMP:

7-22-97

Talking Points on the U.S. Economy

OVERVIEW

The economy has been doing very well--real GDP grew at a 5.9 percent annual rate in the first quarter (chart 1.1) and has grown 4.1 percent over the past 4 quarters ending in 1997:Q1.

This rapid pace of GDP growth (in excess of the economy's potential) has brought the unemployment rate down to 4.9 percent in the second quarter (chart 1.3).

(We belive that potential GDP is now growing at about 2.4 percent:

Population growth:	1.0 percent
L.F. participation rate	0.1
Productivity growth	1.3
Workweek	0.0
Total	2.4

Productivity growth is expected to pick up from its trend 1.1 percent growth rate (chart 1.2) primarily because of changes to the structure of the CPI--but also because of recent rapid growth rates of the capital stock.

The expansion is on firm footing because there is no increase in inflation--at least as yet. All recessions since the 1960s have ended when the Fed raises interest rates to squelch an increase in inflation.

CPI inflation is flat or down (chart 1.4). As measured by the total CPI, inflation has fallen to 2.3 percent for the 12 months ending in June from 2.8 percent during the year earlier period. The core CPI increased 2.4 percent over the past 12 months--down slightly from the year-earlier period (2.7 percent).

We are making good progress on the deficit (chart 1.5)--which is likely to be around $40 billion in FY 1997--dramatically less than the deficits that were projected before OBRA-93.

The economy cannot continue to grow this fast without developing inflation problems. And it would be nice if could slow on its own. There is some evidence that this is happening. What is this evidence?

EVIDENCE OF SLOWING

The clearest evidence of slowing is from the household sector. (charts on page 2)

(Not shown) Light motor vehicle sales fell to 14.4 million units at an annual rate in the second quarter--the lowest quaterly selling pace in 2 years.

As indicated by the June report on retail sales, real goods consumption (excluding motor vehicles) is little changed in the second quarter.

Putting this all together, **it appears that real consumption in the second quarter will slow to about 1½ percent at an annual rate--a major deceleration from the previous 2 quarters (chart 2.1).**

The volatility of consumption during the past year has been perplexing. As you can see from the chart, consumption growth was weak in both the third quarter of last year and the second quarter of this year. In contrast, first-quarter consumption was a real barn-burner. Although explanations are available for the slow quarters--and for the strong quarter, we cannot explain both at the same time.

Factors arguing for consumption strength:

- **High consumer confidence.** (Conference Board series is at its highest level since the 1960s; U. of Michigan at the highest level ever--chart 2.2)

- **High wealth.** The ratio of Household Net worth to disposable income is at its highest level since the 1960s (chart 2.5). In fact, one could argue that consumers have still not adapted to the recent increses in wealth.

Factors arguing for consumption weakness:

- Bankers have been more restrained on extending consumer credit--as shown by the Fed's Senior Loan Officer survey (chart 2.6).

Housing

Like other measures of household spending, housing starts have softened in recent months. Demographics suggest a lower level in the near term than in the recent past. Many housing analysts argue that the pace of homebuilding in 1996 was running ahead of its demographic fundamentals--which is probably around 1 million for single-family starts and 1.4 million for total starts. (Stan Dubinnas at NAHB, Lyle Gramley at MBA, Harvard Joint Center for Housing Research)

- Although the 1994 rise mortgage rate was important in eventually slowing housing starts in 1995, its movement has not been a factor more recently. Over the past 1½ years, mortgage rates (like other long-term interest rates) have gone up and down with the perceived strength of the economy.

In contrast, business spending seems to be perking along.

Inventory investment is strong. The inventory-to-sales ratio has fallen to very low levels (chart 3.2) and so the robust pace of first-quarter stockbuilding--which is continuing into the second quarter--remains a source of strength (chart 3.1).

Equipment investment will be strong in the second quarter. Based on recent shipments data, it looks like PDE will grow at about a 15 percent annual rate.

- A year ago, we thought that the slowing in GDP growth would damp equipment spending (through the accerator model shown in chart 3.4). But with the pickup in GDP growth in 1996:Q4 and 1997:Q1, this prospective slowdown is no longer clear.

- In the longer run these double digit rates of investment growth have to slow. At some point, businesses will satisfy their demand new capital. (In the long run, business demand for equipment depends on the steady-state level of output and factor prices.)

Business structures has grown at a 8.8 percent rate over the past year--the 3rd consecutive year of solid growth. The lengthening expansion is good news for this sector--because it is helping to work off the overhang of overbuilt office buildings accumulated in the 1980s (chart 3.3)

EXTERNAL CONSIDERATIONS

The foreign market is likely to be about neutral in the near term, and a slight drag over the medium term.

- Foreign growth seems to be picking up (chart 4.3)--which should help exports a bit.

- On the other hand, the rise in the value of the dollar (up 15 percent over the past 2 years against G-10 currencies) will restrain net exports.

Inflation Considerations

As I said at the begining of my talk, the durability of this expansion depends on inflation remaining under control. Let's take **a closer look at the inflation process**.

We are not so foolish as to think we can precisely estimate the NAIRU, but it is now reaching the lower bound of our estimates (a 70 percent confidence region is shown in chart 5.1). Based on the unemployment rate alone, one might think that an inflation pick up might have already appeared. **Why hasn't inflation picked up?**

- **Import prices**: non-oil import prices have increased 2½ percent over the past year--enough to hold down the rate of core CPI inflation by 0.2 percentage points. (For more on this, see WEB article)

  - Can this cont inue ? Exce ss capa city seem s like ly to pers ist abroad--especially in the the European Union and Japan. As a result, foreign inflation is likely to remain lower than U.S. inflation for some time.

- But most of the decline in import prices is accounted for by the dollar appreciation over the past 2 years. This appreciation is unlikely to be repeated.

- **Labor Costs have been held down by a dramatic decelleration in benefit costs** (chart 5.3). Most of this decelleration is accounted for by a huge decelleration in employer payments for health insurance--which have been essentially unchanged over the past two years--down from about 6 percent three years ago. Can this continue?

- **New CPI procedures have held down measured inflation**
  - 0.14 fix of formula bias for food (Jan 94)
  - 0.1 fix for formula bias for non-food (July 96)
  - 0.06 hospital price fix (measure list rather than transaction prices; measure outputs not inputs)
  - more CPI fixes on the way
    .15 Jan 98 new market basket.
    .15 geometric averaging (Jan 99)

Even if inflation does pick up, it will probably happen slowly.

- Labor costs are not now putting upward pressure on prices. The ECI measure of hourly compensation is growing at only a 3.0 percent annual rate. After subtracting trend productivity growth of 1.1 percent, trend unit labor costs are growing at less than 2 percent per year--which is below all aggregate measures of price inflation.

- The profit share is very high (chart 5.5), and--if unit labor costs begin to accelerate--could serve as a buffer between costs and prices.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-JUL-1997 12:59:01.00

SUBJECT: Decision Memo on Rebecca Blank

TO: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/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:
Charles Duncan in Bob Nash's office said that he is going to draft the memo from Bob to the POTUS recommending Becky. That memo should go in to the POTUS either today or tomorrow. They will then notify us when the decision memo comes back with the POTUS's sign-off (should be by the end of next week) At that point, the POTUS can announce his "intent to nominate" Becky and we can bring her on board as Chief Economist until she is confirmed.
I'll keep you updated.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. email	Janet L. Yellen to Records Management at 20:27:27.00. Subject: Official USSS WAVES Request - Records Management Document. (partial) (1 page)	07/24/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-JUL-1997 20:27:27.00

SUBJECT: Official USSS WAVES Request - Records Management Document

TO: Records Management (Records Management @ EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Requestor: Yellen, Janet
Requestor Phone: 3955042
Requestor Pass Type: WHS
Appointment With: Yellen, Janet
Appointment Room: 314
Appointment Date: 7/25/97
Appointment Building: Old Executive Office Building
UNumber:
Comments:

Visitors
Time Last Name First Name DOB
Cit COA SSN
09:00:00 AM AKERLOF ROBERT
[redacted] Y US [redacted] [0041]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. email	Janet L. Yellen to Records Management at 16:31:42.00. Subject: Official USSS WAVES Request - Records Management Document. (1 page)	07/27/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-JUL-1997 16:31:42.00

SUBJECT: Official USSS WAVES Request - Records Management Document

TO: Records Management (Records Management @ EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Requestor: Yellen, Janet
Requestor Phone: 3955042
Requestor Pass Type: WHS
Appointment With: Yellen, Janet
Appointment Room: 314
Appointment Date: 7/28/97
Appointment Building: Old Executive Office Building
UNumber:
Comments:

Visitors
Time Last Name First Name DOB
Cit COA SSN
09:00:00 AM AKERLOF ROBERT
[redacted] Y US [redacted] [005]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-JUL-1997 12:03:45.00

SUBJECT: CBO's summer update

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

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

TEXT:
Assuming a reconciliation bill, CBO's summer update will be released during the second week of September.

Alternatively, if there is no agreement, then it may never be published.

Steven

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:30-JUL-1997 16:34:25.00

SUBJECT:

TO: Jason Shogren (CN=Jason Shogren/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.D16]MAIL427126011.216 to ASCII,
The following is a HEX DUMP:

To: JY JF; 7/22/97

Impact of climate change policies on U.S. industry: LDC issues

Those favoring specific CO_2 targets for developing countries often argue that they are necessary to prevent a deterioration in U.S. **competitiveness.** The "competitiveness" argument has at least two versions. It is argued that without specific developing country targets:

- U.S. industry will relocate abroad, or
- the demand for U.S. energy-intensive exports and import-competing goods will decline.

A review of the available evidence suggests that while a few energy intensive industries could be adversely affected, a sensible (moderate) CO2 emissions reduction program would likely have relatively small effects on most segments of American industry. We are unlikely to see a massive shift of energy intensive production abroad or substantial alterations in trade flows.

With respect to the issue of firm location decisions

. The argument that U.S. firms would relocate abroad in response to a CO2 emissions program is a form of the "pollution havens" hypothesis, in which firms are tempted move to countries with lax environmental standards. There is very little, if any, relevant evidence from models focusing on climate change. But there is evidence from other areas of environmental regulation. It suggests that the pollution havens hypothesis has little empirical support: the costs of complying with environmental regulations are apparently too small relative to other factors (labor costs, tax rates, infrastructure, etc.) to have much effect on firms' location.

Loss of demand for U.S. energy-intensive exports

Even without firm relocation, an emission reduction program could affect trade flows, adversely affecting the ability of U.S. energy intensive exports and import competing industries to compete against firms based in non-Annex I countries. Here there is a bit of evidence from climate change models: McKibbin and Wilcoxen examined the effect of a carbon tax of $15 per ton applied in the United States alone, and in the United States and the OECD together, on trade flows. They conclude "our results suggest that a carbon tax would produce little redistribution of trade in either the short or long run."

What about the effect on the trade balance?

A third question concerns the likely effect of a CO2 program on the U.S. trade balance.

- Reductions in U.S. energy-intensive exports would be to a greater or lesser extent offset in other ways. For example, there would be a fall in oil imports and a possible fall in the price of imported oil, to the benefit of the U.S. .
- An emission reduction could affect the overall U.S. current account balance and the balance of trade. The effect on the overall current account balance is heavily dependent on (1) whether the U.S. turns out to be a net buyer or seller under international emissions trading, and on (2) how any revenue is used (with the most beneficial effect

from using the funds to raise public saving). The international transfers associated with permit trading can affect net trade flows and exchange rates. The trade balance is likely to move in the opposite direction from the current account balance.

- We cannot rule out the possibility that some industries with high energy costs may be adversely affected. The DOE's Argonne study identified six energy intensive industries that might be affected: basic chemicals, petroleum refining, aluminum, iron and steel, paper and allied products, and cement. But even in these industreis, firms do face some deterrents to relocate, including high fixed costs and sensitivity to transportation expenses.

Overall, the adverse "competitiveness" effects on U.S. industry are likely to be relatively small.

- **A large share of carbon emissions come from non-tradeable sectors (e.g., utilities), which would not be adversely affected by international considerations.**

- **Energy is not a huge cost for most industries**

- **Only six energy-intensive industries are expected to suffer serious dislocation: basic chemicals, petroleum refining, aluminum, iron and steel, paper products, and cement.**

- **The main reasons we want LDC participation lie, not with the economic costs, but with the emission effects: i.e., concerns over "leakage" and free-riding.**

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Peter R. Orszag (CN=Peter R. Orszag/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:30-JUL-1997 19:04:24.00

SUBJECT: Brief literature summary -- over to you to clean it up and improve it

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

TO: Alicia H. Munnell (CN=Alicia H. Munnell/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

TEXT:
Hope this is helpful. Please share subsequent drafts with me, since I'm
now intellectually interested in this topic.=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D43]MAIL421396016.216 to ASCII,
The following is a HEX DUMP:

Short literature summary on environmental costs and U.S. "competitiveness"
July 30, 1997

One concern often raised about attempts to reduce carbon emissions is that such an effort would effect a marked deterioration in U.S. competitiveness. The "competitiveness" argument has at least two versions:

- Without specific developing country targets, U.S. industry will relocate abroad.
- Without specific developing country targets, the demand for U.S. energy-intensive goods will decline and the current account balance will deteriorate.

Before summarizing the literature, it is important to recognize two factors that tend to militate against significant location or trade effects:

- Non-tradeable sectors account for a substantial share of carbon emissions. Transportation and buildings, for example, account for roughly two-thirds of U.S. emissions. For these sectors, the "competitiveness" argument seems largely irrelevant.
- In most manufacturing sectors, energy costs are a small percentage of total costs. According to the 1995 Annual Census of Manufactures, energy costs for manufacturing industries averaged just 2.2 percent of total costs. In electronic equipment (SIC code 36), for example, energy accounts for 1.2 percent of total costs. In instruments and related products (SIC code 38), energy also accounts for 1.2 percent of total costs. Given the small share of energy in total costs in most industries, differential shifts in the relative price of energy across countries are unlikely to have substantial effects on location decisions and trade flows. Another form of this argument notes that significant differentials in existing energy prices across countries do not seem to cause substantial movements in industries. The price of a barrel of heavy fuel oil in 1994, for example, was $13.65 in the United States and $5.06 in Venezuela.[1] Yet firms have not generally fled the United States for Venezuela.

The rest of this memorandum briefly summarizes the available literature on both forms of the competitiveness argument. The paucity of studies on climate change policies *per se* necessitates reliance on studies of environmental regulations more generally. Caution may therefore be warranted in applying these results to the climate change issue.

Firm location decisions

[1] *Statistical Abstract 1996*, Table 1359, Page 848.

The first type of competitiveness argument is a form of the "pollution havens" hypothesis,[2] in which firms are tempted to relocate to (or to build new plants in) countries with lax environmental standards. The evidence, however, suggests that the pollution havens hypothesis has little empirical support: the costs of complying with environmental regulations are too small relative to other factors (labor costs, tax rates, infrastructure, etc.) to have much effect on firms' location decisions.

- The literature review conducted by Jaffe, Peterson, Portney, and Stavins concludes that "We assess the evidence and find that there is little to document the view that environmental regulations have had a measurably adverse effect on competitiveness. Although the long-run social costs of environmental regulation may be significant, including adverse effects on productivity, studies attempting to measure the effect of environmental regulation on net exports, overall trade flows, and plant-location decisions have produced estimates that are small, statistically insignificant, or not robust to tests of model specification."[3]

- Esty notes that "empirical studies have shown little propensity of pollution-intensive industries to move to 'pollution havens'...Even in industries with high pollution control costs, companies often face other deterrents to relocations, including high fixed costs and sensitivity to transportation expenses."[4]

- Dean writes that "More stringent regulations in one country are thought to result in loss of competitiveness, and perhaps industrial flight and the development of pollution havens. The many empirical studies which have attempted to test these hypotheses have shown no evidence to support them."[5]

- Summers reaches the same conclusion, writing that "costs of compliance with environmental regulations are generally not a sufficiently high fraction of total cost to be a crucial determinant of location...there is very little evidence of footloose polluting industries."[6]

[2] The term was coined in Walter and Ugelow, "Environmental policies in developing countries," *Ambio*, 8 (1979), 102-109.

[3] Adam Jaffe, Steven Peterson, Paul Portney, and Robert Stavins, "Environmental Regulation and International Competitiveness: What Does the Evidence Tell Us?" Resources for the Future, Discussion Paper 94-08.

[4] Daniel Esty, *Greening the GATT* (Institute for International Economics, 1994), page 159.

[5] Judith Dean, "Trade and the Environment: A Survey of the Literature," in Patrick Low, editor, *International Trade and the Environment* World Bank Discussion Paper No. 159, 1992.

[6] Larry Summers, "Foreward," in Patrick Low, editor, *International Trade and the Environment* World Bank Discussion Paper No. 159, 1992.

Studies of plant location decisions at the state level similarly conclude that "there is little direct evidence of a relationship between stringency of environmental regulations and plant location choices."[7] For example, separate studies by Bartik and Levinson both conclude that plant location is not significantly affected by state-level enviromental regulations.[8]

Some have taken the argument even further, arguing that more rigorous environmental standards make domestic firms *more* competitive because the regulations spur innovation.[9] Many who find this extreme position unconvincing are nevertheless willing to accept that environmental regulations have little effect on firm location decisions.[10]

Trade flows

Even if firms do not move or build plants abroad, trade flows could still shift in response to environmental policies. But existing studies have generally concluded that environmental regulations have little effect on trade. For example, Grossman and Krueger concluide that pollution abatement costs in the United States have had little effect on imports from Mexico or activity in the maquiladora sector.[11] Consistent with the lack of a significant negative relationship at the national level, states with higher-than-average pollution abatement spending apparently do not export less than other states.[12]

[7] Adam Jaffe, Steven Peterson, Paul Portney, and Robert Stavins, "Environmental Regulation and International Competitiveness: What Does the Evidence Tell Us?" op. cit., page 23.

[8] Timothy Bartik, "The Effects of Environmental Regulation on Business Location in the United States," *Growth and Change*, 19 (1988), 22-44; Arik Levinson, *Environmental Regulations and Manufacturers' Location Choices: Evidence from the Census of Manufactures* (Columbia University, 1992).

[9] Michael Porter, "America's Green Strategy," *Scientific American*, August 1991.

[10] "When green is good," *Economist*, November 20, 1993; Adam Jaffe, Steven Peterson, Paul Portney, and Robert Stavins, "Environmental Regulation and International Competitiveness: What Does the Evidence Tell Us?" op. cit.

[11] Gene Grossman and Alan Krueger, "Enviromental Impacts of a North American Free Trade Agreement," in Peter Garber, ed., *The US-Mexico Free Trade Agreement* (MIT Press, 1992).

[12] J. David Richardson, *Sizing Up U.S. Export Disincentives* (Institute for International Economics, 1993), pages 114-115.

Climate change studies

Few studies have examined the specific impact of climate change policies. One study by McKibben and Wilcoxen did examine the effect of a carbon tax of $15 per ton applied in the United States alone, and in the United States and the OECD together, on trade flows. They conclude that "our results suggest that a carbon tax would produce little redistribution of trade in either the short or long run."[13]

A related literature has studied the magnitude of "leakage effects" -- that is, to what extent cuts in domestic emissions would be offset by shifts in production and therefore increases in emissions abroad. This literature has not reached any firm conclusions: Repetto and Austin report that studies of unilateral emissions reduction policies in OECD countries predict leakage rates of between 3.5 and 70 percent.[14]

Caveat

In sum, the related literatures suggest that carbon policies are unlikely to effect a massive shift of energy-intensive production abroad. At the same time, the empirical literature on the specific impact of carbon policies is sparse. And an important caveat to the general findings above is that for several industries, energy costs are a significant share of total costs. For example, in primary aluminum production (SIC 3334), energy accounts for 21.4 percent of total costs. In hydraulic cement (SIC 3241), energy accounts for 20.5 percent of total costs, while in inorganic chemicals (SIC 281), the share is 13.7 percent. And in other industries -- including the pulp and paper industry, and the steel industry -- energy is a significant input. In these industries, which account for perhaps 2 to 3 percent of total industrial output, the effects may be more significant than those outlined above.

[13] Warwick McKibbin and Peter Wilcoxen, "Environmental Policy and International Trade," Brookings Discussion Papers in International Economics, October 1995, page 2.

[14] Robert Repetto and Duncan Austin, *The Costs of Climate Protection: A Guide for the Perplexed*, World Resources Institute, 1997, page 31.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Michael Waldman (CN=Michael Waldman/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:31-JUL-1997 09:57:15.00

SUBJECT: draft of statement re balbud

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

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

TO: Peter R. Orszag (CN=Peter R. Orszag/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:
Please note especially the rendition of today's economic news ...
---------------------- Forwarded by Michael Waldman/WHO/EOP on 07/31/97
09:56 AM ---------------------------

Michael Waldman
07/31/97 09:55:58 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Barry J. Toiv/WHO/EOP, Joseph P. Lockhart/WHO/EOP
Subject: draft of statement re balbud

THIS IS A DRAFT Folks -- get us edits/signoff, then we'll get it around

Draft 7/31/97 10am

PRESIDENT WILLIAM J. CLINTON
STATEMENT ON SENATE PASSAGE OF BUDGET BILL
THE WHITE HOUSE
JULY 31, 1997

The final congressional passage of the balanced budget bill is the achievement of a generation and a triumph for every American. This budget marks an end to decades of deficits, and just as important, it honors our values, investing in the education, health and futures of our people. To cite just one example, this vote means that up to 5 million children who lack health insurance will now receive quality health care, even as we cut overall government spending. That,s the right way to balance the budget.

I am particularly pleased that our balanced budget passed with the overwhelming support of both parties in both houses of Congress. It reflects the common values and common sense of the vital center of American politics.

This balanced budget also will strengthen America by continuing our economic strategy. Beginning in 1993, our new economic approach of cutting deficits, investing in our people, and expanding exports through tough trade agreements has created the conditions for sustained prosperity. Today we have learned that the economy grew over the first six months of this year at a 3.5% rate, with low inflation and rising wages. [ck] Today,s passage of the balanced budget will continue that strategy and help keep America,s economy growing.

I look forward to the swift passage of the tax cuts, in separate legislation, to complete our balanced budget plan.

Message Sent
To:____
Michelle Crisci/WHO/EOP
Rahm I. Emanuel/WHO/EOP
Gene B. Sperling/OPD/EOP
Melissa Green/OPD/EOP
Russell W. Horwitz/OPD/EOP
Ann F. Lewis/WHO/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason Shogren (CN=Jason Shogren/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 2-AUG-1997 14:03:38.00

SUBJECT: update on Treasury's outline for some climate change work

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

TO: Randall W. Lutter (CN=Randall W. Lutter/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:
---------------------- Forwarded by Jason Shogren/CEA/EOP on 08/02/97
02:02 PM ---------------------------

JONATHAN.GRUBER @ MS01.DO.treas.sprint.com
08/01/97 01:26:00 PM
Record Type: Record

To: Jason Shogren
cc:
Subject: climate change

Date: 08/01/1997 01:18 pm (Friday)
From: Jonathan Gruber
To: squitierir, wilcoxd, gillinghamr, muldoonl, jonesb, kitchenj,
shogren
CC: devlinc
Subject: climate change

Folks -

Here is the final revision to the agenda. Several key points to note:

1) John Kitchen has been added to the team, fresh from fighting the tobacco companies, to provide some extra general intellectual firepower.

2) We have a lot to do in the short run.

- TJ wants comments on his latest technology paper by Tuesday - David and Robert have the lead on this. The ultimate plan is that there will be both this paper and a "policy" paper. I don't know how this is going to be split up, but I think that for now we should treat this as one effort and do
a general beatup/rewrite.

- We need to get moving more quickly on the domestic side. I suggest that we try to have a meeting of our Washington contacts next Wednesday. Jay, Robert, and David, can you see if this works with their schedules?

- There is supposed to be a joint State/Commerce/Treasury draft of the developing country paper by August 13. This means that we need to develop our internal options well in advance of that date. I have set a deadline of the end of next week, which is probably even a bit too late but should hopefully give us some time to do fruitful thinking on this topic.

3) We will be meeting on Monday at 4:30 to discuss the domestic trading straw man/questions, developed by Ray and Robert.

Thanks -

Jon

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D68]MAIL46680531B.216 to ASCII,
The following is a HEX DUMP:

Treasury/CEA Agenda on Climate Change for August
Lead Person in caps

I) Leftover Tasks

A) OPEC Memo - RAY, David, Jon - by COB Friday

B) Equitability Memo - LARA, Ben, Ray, Jon - whenever data is available

C) Principles Memo - JON - ASAP

D) Rubin Briefing on climate change - RAY, John, Lara - by COB Monday

II) Domestic Emissions Trading

A) Issues/Background paper - JON, Robert, David - by Aug 5
- work with EPA to polish off - get revision from them Monday
- incorporate any comments from Summers
- prepare jointly with EPA for presentation at Asst. Secretary meeting next Thursday

B) Straw man/questions - RAY & ROBERT - by COB Monday - show to everyone else for comments

MEETING: Next Monday at 4:30 to go over straw man, and set up strategy for meetings with consultants.

C) Washington consultants - meeting **next Wednesday** to go over straw man/questions
- Robert Hahn - JAY
- Robert Litan - ROBERT
- Mike Toman - DAVID

Can these folks please make calls TODAY to see if we can get this meeting for Wednesday?

D) Outside consultants - get reactions to our straw man
- Dick Schmalansee - JON
- Bill Nordhaus - DAVID

E) Industry contacts - LARA
- **set up meeting for next THURSDAY to ask questions about trading strategies and hear their thoughts**

III) International Emissions Trading

A) Critique Justice paper - DAVID, Jay - should be in this afternoon
- this paper is on broader question of integrating domestic and international trading

B) Critique EPA/Commerce paper on how international trading would work

- get copy of latest draft from EPA - JON
- do critique - DAVID, Jay, John

C) Engage OASIA (on this and other things) - JON - by COB Monday

D) Get paper to GC when it comes in - JON

E) What is the magnitude of the international flows - RAY, Jay, Ben, Lara, John - by Aug 8
- in this context, get to know the pros and cons of models

IV) JI/Additionality, Developing Country Commitments, and Escape Clauses

A) Engage with EPA and state on where they are, get past paper - JON - ASAP

B) Contact Mike Toman for comments & thoughts - JAY - Monday

C) Engage World Bank to see where they are - BEN, Jay - Monday

D) Work on analysis - ROBERT, Jay, David, Lara, Ben, Jon, John - drafts by Aug 8

V) Technology

A) Get 5 labs study to Treasury - JAY - ASAP

B) Find out who reviewers are, possibly get comments - JAY

C) Figure out appropriate reviewers - RAY, Robert, David - by Aug 5

D) Work on details of paying reviewers - JON - ASAP

E) Detailed review/rewrite of technology paper - DAVID, Robert - by Aug 5

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006. email	WAVES_CONF to Janet L. Yellen at 14:40:39.00. Subject: WAVES Confirmation. (partial) (1 page)	08/03/1997	b(7)(C), b(7)(E), b(7)(F), b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
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- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

- C. Closed in accordance with restrictions contained in donor's deed of gift.
- PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
- RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: WAVES_CONF@OPUS.EOP.GOV (WAVES_CONF@OPUS.EOP.GOV [UNKNOWN])

CREATION DATE/TIME: 3-AUG-1997 14:40:39.00

SUBJECT: WAVES Confirmation

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

TEXT:
ADDRESSEES: JANET_L._YELLEN
SUBJECT: CONFIRMATION: APPT. REQUEST FOR YELLEN, JANET
FROM: WAVES OPERATIONS CENTER - ACO (b)(6), (b)(7)c, (b)(7)e, (b)(7)f [redacted] [OOC]
Date: 07-27-1997
Time: 18:09:08
This message serves as confirmation of an appointment for the
visitors listed below.
Appointment With: YELLEN, JANET
Appointment Date: 7/28/97
Appointment Time: 9:00:00 AM
Appointment Room: 314
Appointment Building: OEOB
Appointment Requested by: YELLEN JANET
Phone Number of Requestor: 55042
WAVES APPOINTMENT NUMBER: U57564
If you have any questions regarding this appointment,
please call the WAVES Center at 456-6742 and have the
appointment number listed above available to the
Access Control Officer answering your call.
****
TOTAL NUMBER OF NAMES SUBMITTED FOR ENTRY : 1
TOTAL NUMBER OF NAMES OF CLEARED FOR ENTRY: 1
****
AKERLOF, ROBERT [redacted] (b)(6) [redacted] (b)(6)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-AUG-1997 14:40:36.00

SUBJECT: WAVES Request

TO: USSS (USSS [UNKNOWN])
READ:UNKNOWN

TEXT:

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
007. email	WAVES_CONF to Janet L. Yellen at 14:40:40.00. Subject: WAVES Confirmation. (partial) (1 page)	08/03/1997	b(7)(C), b(7)(E), b(7)(F), b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.
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RR. Document will be reviewed upon request.

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- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: WAVES_CONF@OPUS.EOP.GOV (WAVES_CONF@OPUS.EOP.GOV [UNKNOWN])

CREATION DATE/TIME: 3-AUG-1997 14:40:40.00

SUBJECT: WAVES Confirmation

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

TEXT:
ADDRESSEES: JANET_L._YELLEN
SUBJECT: CONFIRMATION: APPT. REQUEST FOR YELLEN, JANET
FROM: WAVES OPERATIONS CENTER - ACO: [redacted] [667]
Date: 07-23-1997
Time: 06:34:51
This message serves as confirmation of an appointment for the
visitors listed below.
Appointment With: YELLEN, JANET
Appointment Date: 7/23/97
Appointment Time: 9:00:00 AM
Appointment Room: 314
Appointment Building: OEOB
Appointment Requested by: YELLEN JANET
Phone Number of Requestor: 55042
WAVES APPOINTMENT NUMBER: U55948
If you have any questions regarding this appointment,
please call the WAVES Center at 456-6742 and have the
appointment number listed above available to the
Access Control Officer answering your call.
****
TOTAL NUMBER OF NAMES SUBMITTED FOR ENTRY : 1
TOTAL NUMBER OF NAMES OF CLEARED FOR ENTRY: 1
****
AKERLOF, ROBERT [redacted] [redacted]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
008. email	WAVES_CONF to Janet L. Yellen at 14:40:41.00. Subject: WAVES Confirmation. (partial) (1 page)	08/10/1997	b(7)(C), b(7)(E), b(7)(F), b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

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Presidential Records Act - [44 U.S.C. 2204(a)]

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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: WAVES_CONF@OPUS.EOP.GOV (WAVES_CONF@OPUS.EOP.GOV [UNKNOWN])

CREATION DATE/TIME: 3-AUG-1997 14:40:41.00

SUBJECT: WAVES Confirmation

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

TEXT:
ADDRESSEES: JANET_L._YELLEN
SUBJECT: CONFIRMATION: APPT. REQUEST FOR YELLEN, JANET
FROM: WAVES OPERATIONS CENTER - ACO [redacted] (b)(6), (b)(7)c, (b)(7)e, (b)(7)f [008]
Date: 07-21-1997
Time: 08:11:35
This message serves as confirmation of an appointment for the
visitors listed below.
Appointment With: YELLEN, JANET
Appointment Date: 7/21/97
Appointment Time: 9:30:00 AM
Appointment Room: 314
Appointment Building: OEOB
Appointment Requested by: YELLEN JANET
Phone Number of Requestor: 55042
WAVES APPOINTMENT NUMBER: U54962
If you have any questions regarding this appointment,
please call the WAVES Center at 456-6742 and have the
appointment number listed above available to the
Access Control Officer answering your call.
****
TOTAL NUMBER OF NAMES SUBMITTED FOR ENTRY : 1
TOTAL NUMBER OF NAMES OF CLEARED FOR ENTRY: 1
****
AKERLOF, ROBERT [redacted] (b)(6)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Maria J. Hanratty (CN=Maria J. Hanratty/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-AUG-1997 19:58:19.00

SUBJECT:

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

CC: Sanders D. Korenman (CN=Sanders D. Korenman/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.D81]MAIL467333619.216 to ASCII,
The following is a HEX DUMP:

Programs for Teen Parents on AFDC

1) New Chance Program: (MDRC July 1997)

The New Chance program is a voluntary program for 16-22 year old women who were dropouts and had given birth prior to age 19 and were currently receiving welfare. This program provides extensive services such as adult education, GED preparation, job skills training, job placement assistance, family planning and parenting skills, child care, and case management. Program costs per participant ranged from $13,000 to $15,221, largely due to high costs of child care (29%) and case management (27%).

Results from a 3.5 year evaluation from 1989 to 1992 found that the program significantly increased completion of high school/GED degree (51.9% experimentals vs 43.8% of controls). On other key aspects of program performance--employment, earnings, AFDC receipt, and subsequent childbirth--there is no evidence of improved outcomes. This may be because of low use of program services by the treatment group, or because an unusually large fraction of the controls received services through other programs.

2) LEAP Program: (MDRC, July 1997)

Ohio's Learning, Earning, and Parenting program (LEAP) provided financial incentives for pregnant teen-agers or teen-age custodial parents who are receiving AFDC to remain in school / reenroll in school. The program increases the grant by $62 per month for teens who attend school regularly (from an average grant of $274 per month) and decreases the grant by $62 per month for teens who do not attend school regularly. Program requirements cease when the participant reaches age 20 or completes high school or a GED.

Evalations of program in the second to fourth year after random assignment suggest:
* For the total sample, the program significantly increased completion of grade 11 (50.0% vs 45.4%) but did not increase completion of high school/GED. The program increased employment rates in year 2 (43.8 experimental vs 40.6% control), but not in subsequent years. It also decreased the total dollar value AFDC receipt in years 3 & 4 ($5459 vs $5185).
* For teens initially enrolled in high school, the program increased GED completion but did not increase high school graduation/completion of grade 11. This group showed larger and more sustained increases in earnings and decreases in AFDC receipt.
* For teens not initially enrolled in high school (the group served by the New Chance program), the program increased grade 11 completion. It did not increase high school graduation/GED receipt, and did not affect employment rates or AFDC receipt in years 3 & 4.
* The program resulted in a net loss in income for program participants of roughly $1100 over four years. It was roughly revenue neutral for the Ohio Department of Human Services.

3. Teenage Parent Demonstration: (Mathematica Policy Research, June 1993)

This program, operating in Camden and Newark, NJ and the south side of Chicago, IL, required all first time teen mothers to participate in specified education and training programs when they first enrolled in welfare. Participants could be required to remain in school/reenroll in school, or to enroll in a special education/training program. Participants who failed to comply with the program would receive sanctions in the form of grant reductions. An evaluation based on random assignment, after two years of program operation found that the program significantly increased participation in school, job training and/or employment activities (80% treatment vs 67% control), with the largest gains in school attendance. Overall, the program had relatively small but significant impacts on employment rates after 2 years (48.2 v 43.1%), average monthly earnings (+$23 relative to control) and on average AFDC benefits (-$19). The program did not decrease additional pregnancies or births, and it did not change the parent's living arrangements. It did result in a small increase in the fraction with paternity established (49.8 vs 46.2)

Programs Implementing Sanctions

1) Florida's Family Transition Program (MDRC 1997)

This program, operational in 2 counties in 1994, was one of the first programs in the nation to impose a time limit on the receipt of AFDC (24 months in a 60 month period, 36 months in 72 month period for less employable groups). This program also expanded the earned income disregard ($200 plus 50%) to allow recipients to earn more while still on AFDC. An MDRC report comparing FTP with a control group in Escambia (Pensacola) county for the first 15-18 months of the program (ie BEFORE the time limit is effective) found that:
--the program significantly increased the fraction ever employed (46% program v 40% control), and average total earnings (877 program v 708 control)
--the program did not decrease AFDC receipt.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sanders D. Korenman (CN=Sanders D. Korenman/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-AUG-1997 22:43:02.00

SUBJECT:

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.D31]MAIL45814361T.216 to ASCII,
The following is a HEX DUMP:

Table 1: Effects of Family Structure on High School Dropout and Teen Births

	HS dropout risk (%)	Teen birth (daughters) (%)
Two biological parents	13	11
Single parent due to:		
Divorce	31	33
Death	13	21
Non-marital birth	37	37
Step parent	30	33

Results control for: race, region, number of siblings and education of parents.
Source: Sara S. McLanahan (1994), National Survey of Families and Households.

Table 2: Effects of non-marital first birth (versus marital first birth)

	Difference: Non-marital - Marital First Birth	
	Raw Difference	Sister Difference
Years of schooling completed 1990	-0.8*	-0.1
Family income (1988-90 avg.)	-42%*	-14%
In poverty 1989*	-28%*	- 9%*
Married 1990	-50%*	-27%*
Early childhood outcomes (percentile scores):		
Behavior Problems Index	0.3	-5.2
Math score	-6.3*	5.7
Reading score	-2.2	0.2

Controls: age of mother; age and sex of child; year of assessment.
Source: CEA calculations, National Longitudinal Survey of Youth, 1979-1991
*Statistically significant difference.

Interpretation and Summary

In the study of teen mothers by Hotz et al., there are no adverse effects of teen births on mothers welfare use, and some beneficial effects on earnings and family income.

The studies by McLanahan shows small to moderate effects of family structure on outcomes, mainly in later childhood. Effects on cognitive outcomes (such as GPA) were small; effects on behavioral outcomes (such as teen births and high school drop out) were larger. She included a standard set of controls for race, region, family size, and grandparents' education in her analyses.

She finds that income differences account for about ½ of adverse outcomes associated with family structure.

Her analyses, while valuable, are not suited to answering the question posed by the POTUS for three reasons:
1. She does not examine directly effects on the mothers;
2. She does not focus on non-marital births;
3. She includes standard controls, but does not have a strong "experiment" for getting plausibly "causal" estimates.

Table 2 is a first attempt to remedy these three shortcomings for the purposes at hand. We find:

1. In sister differences, there is evidence of modest adverse effects of non-marital first births on mother's income and poverty status, and no evidence of effects on educational status. There are also large "effects" on mother's marital status in 1990, although this is hardly surprising given the nearly definitional link between non-marital births and marital status. Still, marital status differences "explain" the remaining income and poverty differences between sisters.

2. There is no evidence of adverse effects of non-marital first births on early childhood cognitive development and behavior problems. (Note: a larger value of the behavior problems index indicates more behavior problems for children.) The results for children are entirely consistent with the study of sister differences in effects of teen childbearing on child health and development.

3. The estimates also raise questions. Why, if there is a within family effect on income and marital status isn't there an effect on child development scores? It may be that income per se is not highly predictive of child development scores. Or, it could be that such effects show up at older ages in childhood. The NLSY outcomes are for early childhood.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
009. email	WAVES_CONF to Janet L. Yellen at 08:00:51.00. Subject: WAVES Confirmation. (partial) (1 page)	08/04/1997	b(7)(C), b(7)(E), b(7)(F), b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: WAVES_CONF@OPUS.EOP.GOV (WAVES_CONF@OPUS.EOP.GOV [UNKNOWN])

CREATION DATE/TIME: 4-AUG-1997 08:00:51.00

SUBJECT: WAVES Confirmation

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

TEXT:
ADDRESSEES: JANET_L._YELLEN
SUBJECT: CONFIRMATION: APPT. REQUEST FOR YELLEN, JANET
FROM: WAVES OPERATIONS CENTER - ACO: [redacted] [009]
Date: 08-04-1997
Time: 07:55:54
This message serves as confirmation of an appointment for the
visitors listed below.
Appointment With: YELLEN, JANET
Appointment Date: 8/4/97
Appointment Time: 9:00:00 AM
Appointment Room: 314
Appointment Building: OEOB
Appointment Requested by: YELLEN JANET
Phone Number of Requestor: 55042
WAVES APPOINTMENT NUMBER: U60159
If you have any questions regarding this appointment,
please call the WAVES Center at 456-6742 and have the
appointment number listed above available to the
Access Control Officer answering your call.
****
TOTAL NUMBER OF NAMES SUBMITTED FOR ENTRY : 1
TOTAL NUMBER OF NAMES OF CLEARED FOR ENTRY: 1
****
AKERLOF, ROBERT [redacted]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010. email	Janet L. Yellen to Records Management at 07:41:00.00. Subject: Official USSS WAVES Request - Records Management Document (1 page)	08/04/1997	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
CEA ([Yellen])
OA/Box Number: 950000

FOLDER TITLE:

[07/13/1997 - 08/09/1997]

2013-0223-F
ab1271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-AUG-1997 07:41:00.00

SUBJECT: Official USSS WAVES Request - Records Management Document

TO: Records Management (Records Management @ EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Requestor: Yellen, Janet
Requestor Phone: 3955042
Requestor Pass Type: WHS
Appointment With: Yellen, Janet
Appointment Room: 314
Appointment Date: 8/4/97
Appointment Building: Old Executive Office Building
UNumber:
Comments:

Visitors
Time Last Name First Name DOB
Cit COA SSN
09:00:00 AM AKERLOF ROBERT
[redacted] Y US [redacted] [010]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-AUG-1997 14:29:47.00

SUBJECT: Re: PM/Ozone document request

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

TEXT:
Does this cover the notes I used in making the presentation at the Principals meeting? Does it cover my copies of material that Sarah gave me?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sanders D. Korenman (CN=Sanders D. Korenman/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-AUG-1997 19:31:21.00

SUBJECT: Out-of-wedlock memo

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.D73]MAIL439033616.216 to ASCII,
The following is a HEX DUMP:

The effects of out-of-wedlock births: what do we know?

Mr. President: last week we began a conversation about teen childbearing, and you asked about longitudinal evidence on the effects of out-of-wedlock births. I would like to begin today with what we have learned about the effects out-of-wedlock births.

Effects of Single Parent Family Structure

There is more research on the effects of growing up in a single-parent family on children than on out-of-wedlock births, but it turns out that the effects of different kinds of single-parent families are surprisingly similar (Table 1). By and large, children who wind up in a single-parent family as a result of an out-of-wedlock birth do about the same as children who get there as a result of a divorce. Of course, both groups fare much worse than children who grow up with both biological parents in the household. Surprisingly, children raised in step-parent families really do no better than children raised in other single-parent families. Children raised by widowed mothers are the exception: by most accounts they do as well as children from intact families.

Table 1: Effects of Family Structure on High School Dropout and Teen Births

	HS dropout risk (%)	Teen birth (daughters) (%)
Two biological parents	13	11
Single parent due to:		
Divorce	31	33
Death	13	21
Non-marital birth	37	37
Step father	30	33

Controls: race, region, number of siblings and education of parents.
Source: Sara S. McLanahan (1994), National Survey of Families and Households.

McLanahan also reports that the length and timing of family disruption is not very important. For example, disruptions in adolescence are often just as harmful as disruptions in early childhood.

Do the size of effects of family structure vary?

The size of family structure effects varies depending on the outcome and the population. Effects on children's test scores, grade point average, and years of school are relatively modest. Effects on behaviors such as skipping school and early childbearing are larger.

There are some differences by race and parent's education, but the general pattern of adverse effects are found for all races and social classes. For example, there is some evidence that single-parent family structure has smaller adverse effects for blacks than whites, and that college completion is more adversely effected for women with highly-educated parents. Hispanic employment rates are not much affected by family structure.

Why do kids in single parent families do worse?
There are three principal mechanisms that account for the disadvantages among children who grow up in single parent families: changes in income, changes in parental supervision (from fathers), and changes in "neighborhood quality or social capital" (due to residential moves). Income is clearly the most important factor, explaining about 50 percent of the difference in the educational achievement of children raised in one- and two-parent families. The other two factors appear to explain the rest.

Focus on non-marital first births
Since the focus of policy discussion has been on out-of-wedlock births, and since this literature is not as advanced as that on teen births, we conducted some preliminary analyses to explore further issues of causality. (The data are the National Longitudinal Survey of Youth, which has followed a cohort aged 14 to 21 in 1979.) In short, we compared a woman who had a first birth out-of-wedlock to her sister who had a first birth within marriage. Many other interesting analyses are possible, but this seemed like a good place to start (see next page).

Effects of non-marital first birth (versus marital first birth)

	Coefficients (Standard Errors)		
	Full SampleXSEC	Sisters Subsample Sister Diffs.	
1. Years of schooling completed 1990	-0.66 (0.07)	-0.81 (0.16)	-0.08 (0.11)
Sample size	3601	847	847
2. Log of family income (1988-90 avg.)	-0.32 (0.03)	-0.42 (0.07)	-0.14 (0.08)
Sample size	3631	861	861
3. In poverty 1989*	0.27 (0.02)	0.28 (0.04)	0.09 (0.04)
Sample size	3078	650	650
4. Married 1990*	-0.46 (0.02)	-0.50 (0.03)	-0.27 (0.04)
Sample size	3631	861	861

Source: CEA calculations, NLSY 1979-1991

*Coefficients from linear probability model with robust standard errors.

XSEC: cross-section estimates

Adjusts for mother's year of birth only.

Further analyses:
We also examined the reasons for the higher poverty rate and lower incomes of women who had non-marital births, in sisters comparisons. Not surprisingly, since there was little difference in schooling in 1990 between women who had non-marital first births and their sisters who had marital first births, sister differences in years of schooling did not explain the difference in income or poverty. The residual difference in income and poverty is entirely explained by differences in current marital status in 1990. {Speculation: Hotz type analysis needed because these marriages may break up.}

Outcomes for children (working on it)

Policy

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-AUG-1997 21:36:16.00

SUBJECT: Table

TO: Sanders D. Korenman (CN=Sanders D. Korenman/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.D64]MAIL423933610.216 to ASCII,
The following is a HEX DUMP:

Table 1: Effects of Family Structure on High School Dropout and Teen Births

	HS dropout risk (%)	Teen birth (daughters) (%)
Two biological parents	13	11
Single parent due to:		
Divorce	31	33
Death	13	21
Non-marital birth	37	37
Step father	30	33

Results control for: race, region, number of siblings and education of parents.
Source: Sara S. McLanahan (1994), National Survey of Families and Households.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason Shogren (CN=Jason Shogren/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-AUG-1997 08:30:47.00

SUBJECT: trade paper

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

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

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

CC: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
janet and jeff

here is a short literature summary on environmental costs and U.S. "competitiveness" that peter and i worked on. you need to sign off on this if it is going to be distributed by the nec/ceq to the assistant secretaries. in all likelihood, this will be called a cea paper even if our name is not on the docement given that janet gave the talk to the principals.

jay

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D78]MAIL44167751S.216 to ASCII,
The following is a HEX DUMP:

Short literature summary on environmental costs and U.S. "competitiveness"
4 August 1997

People are often concerned that attempts to reduce carbon emissions will cause a marked deterioration in U.S. competitiveness. The "competitiveness" argument has at least two versions:

- Without specific developing country targets, U.S. industry will relocate abroad.

- Without specific developing country targets, the demand for U.S. energy-intensive goods will decline and the current account balance will deteriorate.

Before summarizing the literature, it is important to recognize factors that tend to militate against significant location or trade effects:

- Non-tradeable sectors account for a substantial share of carbon emissions. Transportation and buildings, for example, account for roughly two-thirds of U.S. emissions. For these sectors, the "competitiveness" argument seems largely irrelevant.

- In most manufacturing sectors, energy costs are a small percentage of total costs. According to the 1995 Annual Census of Manufactures, energy costs for manufacturing industries averaged just 2.2 percent of total costs. In electronic equipment (SIC code 36), for example, energy accounts for 1.2 percent of total costs. In instruments and related products (SIC code 38), energy also accounts for 1.2 percent of total costs. Given the small share of energy in total costs in most industries, differential shifts in the relative price of energy across countries are unlikely to have substantial effects on location decisions and trade flows. Another form of this argument notes that significant differentials in existing energy prices across countries do not seem to cause substantial movements in industries. The price of a barrel of heavy fuel oil in 1994, for example, was $13.65 in the United States and $5.06 in Venezuela.[1] Yet firms have not generally fled the United States for Venezuela.

- The burden of meeting an emission reduction target will be partially borne by non-participating countries because of the changes mediated through international trade. For example, Annex I nations may demand fewer exports from non-participating countries, shifting the terms of trade against these countries, and thereby forcing them to bear some of the costs of reducing greenhouse gases -- even if they do not formally participate in the international emissions reduction agreement.

The rest of this memorandum briefly summarizes the available literature on both forms of the competitiveness argument. The paucity of studies on climate change policies *per se* necessitates reliance on studies of environmental regulations more generally. Caution may therefore be warranted in applying these results to the climate change issue.

[1] *Statistical Abstract 1996*, Table 1359, Page 848.

Firm location decisions

The first type of competitiveness argument is a form of the "pollution havens" hypothesis,[2] in which firms are tempted to relocate to (or to build new plants in) countries with lax environmental standards. The evidence, however, suggests that the pollution havens hypothesis has little empirical support: the costs of complying with environmental regulations are too small relative to other factors (labor costs, tax rates, infrastructure, etc.) to have much effect on firms' location decisions.

- The literature review conducted by Jaffe, Peterson, Portney, and Stavins concludes that "We assess the evidence and find that there is little to document the view that environmental regulations have had a measurably adverse effect on competitiveness. Although the long-run social costs of environmental regulation may be significant, including adverse effects on productivity, studies attempting to measure the effect of environmental regulation on net exports, overall trade flows, and plant-location decisions have produced estimates that are small, statistically insignificant, or not robust to tests of model specification."[3]

- Palmer, Oates, and Portney point out that (1) except for the biggest polluting industries, the costs of complying with environmental regulation is a small fraction of total cost, and are swamped by international differences in labor costs, capital costs, material costs, and exchange rate changes; (2) the differences between US environmental regulations and those of most major trading partners are not that big; and (3) US firms often build state-of-the art facilities abroad regardless of the host nation's environmental regulations (this behavior makes sense if firms believe that tighter standards in developing countries are inevitable, and that better technology reduces the risks of major accidents like Bhopal).[4]

- Esty notes that "empirical studies have shown little propensity of pollution-intensive industries to move to 'pollution havens'...Even in industries with high pollution control costs, companies often face other deterrents to relocations, including high fixed costs and sensitivity to transportation expenses."[5]

[2] The term was coined in Walter and Ugelow, "Environmental policies in developing countries," *Ambio*, 8 (1979), 102-109.

[3] Adam Jaffe, Steven Peterson, Paul Portney, and Robert Stavins, "Environmental Regulation and International Competitiveness: What Does the Evidence Tell Us?" Resources for the Future, Discussion Paper 94-08.

[4]Karen Palmer, Wallace Oates, and Paul Portney, "Tightening Environmental Standards: The Benefit-Cost of the No-Cost Paradigm?" *Journal of Economic Perspectives* 9 (1995), 119-132.

[5] Daniel Esty, *Greening the GATT*, Institute for International Economics, 1994, p. 159.

- Dean writes that "More stringent regulations in one country are thought to result in loss of competitiveness, and perhaps industrial flight and the development of pollution havens. The many empirical studies which have attempted to test these hypotheses have shown no evidence to support them."[6]

- Summers reaches the same conclusion: "costs of compliance with environmental regulations are generally not a sufficiently high fraction of total cost to be a crucial determinant of location...there is very little evidence of footloose polluting industries."[7]

Studies of plant location decisions at the state level similarly conclude that "there is little direct evidence of a relationship between stringency of environmental regulations and plant location choices."[8] For example, separate studies by Bartik and Levinson both conclude that plant location is not significantly affected by state-level environmental regulations.[9]

Some have taken the argument even further, arguing that more rigorous environmental standards make domestic firms *more* competitive because the regulations spur innovation.[10] Many who find this extreme position unconvincing are nevertheless willing to accept that environmental regulations have little effect on firm location decisions.[11]

Trade flows

[6] Judith Dean, "Trade and the Environment: A Survey of the Literature," in Patrick Low, editor, *International Trade and the Environment* World Bank Discussion Paper No. 159, 1992.

[7] Larry Summers, "Foreword," in Patrick Low, editor, *International Trade and the Environment* World Bank Discussion Paper No. 159, 1992.

[8] Adam Jaffe, Steven Peterson, Paul Portney, and Robert Stavins, "Environmental Regulation and International Competitiveness: What Does the Evidence Tell Us?" op. cit., page 23.

[9] Timothy Bartik, "The Effects of Environmental Regulation on Business Location in the United States," *Growth and Change*, 19 (1988), 22-44; Arik Levinson, *Environmental Regulations and Manufacturers' Location Choices: Evidence from the Census of Manufactures* (Columbia University, 1992).

[10] Michael Porter, "America's Green Strategy," *Scientific American*, August 1991.

[11] "When green is good," *Economist*, November 20, 1993; Adam Jaffe et al., op. cit.

Even if firms do not move or build plants abroad, trade flows could still shift in response to environmental policies. But existing studies have generally concluded that environmental regulations have little effect on trade. For example, Grossman and Krueger conclude that pollution abatement costs in the United States have had little effect on imports from Mexico or activity in the maquiladora sector.[12] Consistent with the lack of a significant negative relationship at the national level, states with higher-than-average pollution abatement spending apparently do not export less than other states.[13]

U.S. Investment in Mexico

Recall some people argued against Nafta because they feared US industries would move to Mexico because of its laxer environmental standards. To better understand what has actually happened to US investment in Mexico pre- and post-Nafta, consider Mexico's share of U.S. Foreign direct investment (FDI) with other countries and also compare "historical cost" growth rates. The historical cost data is collected by the Bureau of Economic Analysis and broken out by country and industry, relying primarily on book value.

Mexico share of U.S. FDI Pre-Nafta (1993)	Mexico share of U.S. FDI Post-Nafta (1996)
2.7%	2.4%

Overall, U.S. direct investment in Mexico from 1993 to 1996 grew about 14.5 percent. The share in Mexico peaked in 1994 at about 2.7 percent, but then the actual level of U.S. direct investment into Mexico fell in 1995. This fall suggests that the measurement method did not sufficiently adjust U.S. assets denominated in pesos. But adjusting the 1996 historical cost data upwards for Mexico by 30% (roughly the value of the real depreciation) only raises Mexico's share to 3% compared to 2.7% pre-Nafta. Hardly a giant sucking sound.

The share of U.S. investment in Europe has remained relatively constant (about half) in the post-NAFTA period, and the share of U.S. investment in Asia and the Pacific has remained stable at about 18%. The top destination for U.S. FDI is still the United Kingdom, and its share remains at about 18 percent (the same as the whole of Latin America and Asia and the Pacific), while

[12] Gene Grossman and Alan Krueger, "Environmental Impacts of a North American Free Trade Agreement," in Peter Garber, ed., *The US-Mexico Free Trade Agreement* (MIT Press, 1992).

[13] J. David Richardson, *Sizing Up U.S. Export Disincentives* (Institute for International Economics, 1993), pages 114-115.

Canada has maintained 11-12%.

The data show growth in U.S. direct investment into Mexico over the post NAFTA period, particularly in manufacturing (where growth has been about 22%). But this growth has not differed dramatically from the world as a whole where manufacturing grew 23% over the same period. Even if the Mexico numbers are understated because of the devaluation, a generous upward adjustment doesn't change much. Finally, not only is Mexico's share changing little, but it has only a small share of total U.S. direct investment to begin with.

Climate change studies

Few studies have examined the specific impact of climate change policies. One study by McKibbin and Wilcoxen examined how a carbon tax of $15 per ton applied in the United States alone, and in the United States and the OECD together, affected trade flows. They conclude that "our results suggest that a carbon tax would produce little redistribution of trade in either the short or long run."[14]

A related literature has studied the magnitude of "leakage effects" -- that is, to what extent cuts in domestic emissions would be offset by shifts in production and therefore increases in emissions abroad. This literature has not reached any firm conclusions: Repetto and Austin report that studies of unilateral emissions reduction policies in OECD countries predict leakage rates of between 3.5 and 70 percent.[15] Based on a review of the recent modeling efforts that produced dramatically different results, Thomas Rutherford's (University of Colorado) best guess is that carbon leakage is probably larger than 10 percent and less than 50 percent.[16]

[14] Warwick McKibbin and Peter Wilcoxen, "Environmental Policy and International Trade," Brookings Discussion Papers in International Economics, October 1995, page 2.

[15] Robert Repetto and Duncan Austin, *The Costs of Climate Protection: A Guide for the Perplexed*, World Resources Institute, 1997, page 31.

[16] Thomas Rutherford, "International Competitiveness and National Plans," University of Colorado, 1995.

Among non-Annex I nations, the Australian government projects that South Korea and China will experience economic benefits under medium-term carbon policies.[17] South Korea is a net exporter in fossil fuel intensive products (mainly iron and steel) to Annex I nations. Their exports contribute around 28 percent of GDP. Producers in South Korea could gain a comparative advantage in these markets given an Annex I-only policy.[18] A similar story is projected for China. India and Brazil, are not predicted to gain because the availability of capital is reduced as income in Annex I nations falls, and it becomes more costly to import from Annex I nations the key capital goods that promote growth (e.g., machinery and transportation equipment).

Caveat

In sum, the related literatures suggest that carbon policies are unlikely to effect a massive shift of energy-intensive production abroad. At the same time, the empirical literature on the specific impact of carbon policies is sparse. And an important caveat to the general findings above is that for several industries, energy costs are a significant share of total costs. These industries may be vulnerable, and there may be substantial adjustment costs. For example, in primary aluminum production (SIC 3334), energy accounts for 21.4 percent of total costs. In hydraulic cement (SIC 3241), energy accounts for 20.5 percent of total costs, while in inorganic chemicals (SIC 281), the share is 13.7 percent. And in other industries -- including the pulp and paper industry, and the steel industry -- energy is a significant input. In these industries, which account for perhaps 2 to 3 percent of total industrial output, the effects may be more significant than those outlined above.

DOE's Argonne Study

The Department of Energy commissioned a study by the Argonne National Laboratory to study the potential impact of these restrictions on energy intensive industries.[19] The study focused on six sectors: chemicals, petroleum refining, paper and allied products, iron and steel, aluminum, and cement. The study assumed that the price of fossil fuels are increased based on their carbon content: boosting electricity rates by slightly more than 50 percent from the year 2000 to 2010, tripling coal prices, increasing natural gas charges by about 80 percent, and increasing fuel oil costs between 70 and 90 percent.

[17]Stephen Brown et al., *The Economic Impact of International Climate Change Policy*, Australian Bureau of Agricultural and Resource Economics (ABARE), 1997.

[18]South Korea's gain is also projected by Paul Bernstein, W. David Montgomery, and Thomas Rutherford, *World Economic Impacts of US Commitments to Medium Term Carbon Emission Limits*, Charles River Assoc. Prepared for the American Petroleum Institute.

[19]Ronald J. Sutherland, "The Impact of Potential Climate Change Commitments on Energy Intensive Industries: A Delphi Analysis," Argonne National Laboratory, 5 February 1997.

The Argonne lab set up six working groups, one for each of the sectors, consisting of eight or nine experts, including representatives from the industry, trade associations, environmental groups, academe, the financial community, labor unions, and the government. The general conclusion of the study was that "the policy constraints placed on these six large industries in developed countries, but not on their less developed trading partners, would result in significant adverse impacts on the affected industries."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 5-AUG-1997 21:05:40.00

SUBJECT: Electricty dereg.: Gruber proposal for a possible joint Treasury-CEA memo

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

CC: Timothy J. Brennan (CN=Timothy J. Brennan/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

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

TEXT:
Janet,

There are 8 or 9 topics within electricity deregulation. On most of them, our position seems to be much closer to Treasury's than to DOE and EPA. Gruber definitely wants to coordinate.

Two action forcing events:

(1) I am attending a Deputies meeting on Thursday, where 3 of the items are due to be discussed.

(2) Jon Gruber has suggested, not just a joint Treasury-CEA position, but a possible joint memo. (He may, due to newness on the job, be overestimating the efficacy of circulated memos, and underestimating the downside risk.) The proposal is to do it next week, before you and Larry go on vacation.

The two issues where Tim had nontrivial differences with Treasury (market power and air pollution regulation) are not on the list for Thursday. So there should be time when he returns next week to get him together with me and the Treasury people in a meeting and work things out.

Even assuming we don't do the joint memo, as I think is likely, there is an argument for working out our complete CEA position on electricity deregulation before you go on vacation, since you will be away for two weeks.

Perhaps we can discuss a bit of this at the environment cluster meeting.
JF

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 5-AUG-1997 16:12:29.00

SUBJECT: Update on hiring

TO: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/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:
As you know, we have 3 positions to fill. The following describes our progress in recruiting candidates for the jobs:

International Staff Economist -- 2 candidates applied. One from WI and one from Penn. Jeff is gathering recommendations. Jeff, do you want to give them both a call and interview them by phone?

IO Staff Economist - Aaron has interviewed several grad students at Berkeley and Stanford. He was not particularly impressed by any of them. I e-mailed all econ grad students at MIT and Harvard. I got 3 responses from interested students. They are going to send me their CVs. And, then I'll ask Aaron to talk to them.

IO Senior Economist - Jonathan Baker (FTC) and Andy Jaskow (DOJ) are going to give me names of economists that could get detailed over to CEA>

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 7-AUG-1997 10:07:12.00

SUBJECT: Recruiting -- Conversation with Mike Prell

TO: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/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:
I spoke with Mike Prell a few weeks ago about Eric Engen or any other Fed public finance types. He said he would think about it and get back to us. I talked with him again this morning. Upon reflection, he doesn't want to let Eric go and, moreover, he doesn't think Eric would be interested. I mentioned our interest in getting an IO type. He suggested that they may be able to help us out on that front. He is going to think about it -- but he gave me one name: Robin Prager. Janet, do you know anything about her?
Michele

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 7-AUG-1997 16:14:02.00

SUBJECT: Re: snomass

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

TEXT:
That sounds fine to me. I assume you will be careful about not indicating anything about Administration policy in this and other areas.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason Shogren (CN=Jason Shogren/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 7-AUG-1997 14:58:48.00

SUBJECT: my schedule at CEA

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

TO: Michele Jolin (CN=Michele Jolin/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:
after pondering the meaning of life for quite awhile now, this is what i
came up for a schedule:

aug 12-18 colorado and wyoming
aug 18-30 dc
aug 31 last official cea day
sept 1-10 sweden/finland
sept 10-oct 6 wyoming and dc
oct 7- wyoming and dc if needed

in general, i would like to continue to help this fall if needed including
working on the erp.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason Shogren (CN=Jason Shogren/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 7-AUG-1997 15:09:42.00

SUBJECT: snomass

TO: Michele Jolin (CN=Michele Jolin/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:
i forgot to mention that i was asked to talk about the us govt analysis of alternative approaches to emission trading for the nber workshop on the design of international emissions trading systems next week in snomass, colorado. i accepted because i knew that i would not say anything to dumb or concrete. if i was too presumptuous sorry--i can call them and cancel. if it is ok, i will be glad to tell you want i am going to say--which wont be much.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011. email	Janet L. Yellen to Michele Jolin at 16:35:55.00. Subject: Re: Recruiting -- Conversation with Mike Prell. (1 page)	08/07/1997	b(6)

COLLECTION:

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[07/13/1997 - 08/09/1997]

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P1 National Security Classified Information [(a)(1) of the PRA]
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P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
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b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 8-AUG-1997 13:08:33.00

SUBJECT: Starting at CEA

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

TEXT:
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 08/08/97 01:08 PM ---------------------------

morrisac @ erols.com
08/08/97 02:57:00 PM
Record Type: Record

To: Janet L. Yellen
cc:
Subject: Starting at CEA

Hi Janet,

Hope you are well and things are going smoothly at CEA. I know there are a lot of exciting issues on your plate.

My thesis work is progressing well. I'm getting a complete draft of my second (of three) chapters ready to send to Harvey for him to read when he gets back from vacation around August 18th. (This is a paper testing the claim that state and local governments get into trouble because they hire a bunch of people when times are good, and then don't equivalently fire them when fortunes decline. I'm testing for asymmetric state and local government employment response to increases and decreases in per capita income. I'd had another project on deck, but it died.)

I'm also getting started on my final and somewhat shorter chapter. For my last chapter I'm writing about how transportation infrastructure investments affect the amount of land in farming. I'd like to run some ideas by Alicia, since I know she's very expert on infrastructure. If you have and could share her email address in Boston, that'd be great. I'm at morrisac@erols.com, (703) 299-0940.

Although my work is progressing and under control, I'd love to have more time to try to finish it up before I start at CEA. My current starting schedule is August 27. I definitely don't want to leave you short-staffed, so I'll work around whatever you need and Jay's plans -- I heard he was thinking about staying around past the end of August. I know there is always too much work, so I really hesitate to ask. Even a couple weeks could make a big difference, though. Let me know what you

think, and give me a call at (703) 299-0940 if you want to talk it over.
Thanks, Janet.

All the best,
Adele

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

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08 Aug 1997 12:05:56 -0400 (EDT)
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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IM72YGP54G005FJW@PMDF.EOP.GOV> for
yellen_j@a1.eop.gov; Fri, 08 Aug 1997 12:05:52 -0400 (EDT)
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08 Aug 1997 12:05:45 -0400 (EDT)
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<yellen_j@a1.eop.gov>; Fri, 08 Aug 1997 12:05:42 -0400
X-Mailer: Mozilla 2.01KIT (Win16; U)
================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christopher D. Carroll (CN=Christopher D. Carroll/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 8-AUG-1997 18:16:56.00

SUBJECT: Meeting w. Larry Lindsey.

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

TEXT:
I've set up a lunch meeting for us (you and me - anybody else I should ask?) with Larry Lindsey on Friday Sept 5 at noon. Alice has reserved a table in the White House mess; the appointment is on your calendar.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 9-AUG-1997 19:06:27.00

SUBJECT: On spurious seasonality in the merchandise trade data (minor corrections)

TO: skrane (skrane @ frb.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

TO: m1css00 (m1css00 @ frb.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: helkieb (helkieb @ frb.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

CC: Lael Brainard (CN=Lael Brainard/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Jeremy B. Rudd (CN=Jeremy B. Rudd/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: John D. Montgomery (CN=John D. Montgomery/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Ha Yan Lee (CN=Ha Yan Lee/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
(The last email, written 7/9/97 as a letter to Bob Parker, contained a minor problem in the oil import data. The correction changes the results by less than +/-0.7 $billion.)

Dear Bob,

The merchandise trade figures contain much uncorrected seasonality, which then finds its way into the NIPAs. Thanks to some recent correspondence with Diane Oberg and Mark Viator at the Special Projects Branch of the Census Bureau, I can explain how this happens, and how much it is worth to the quarterly fluctuations in GDP. What to do about it is another matter. At a minimum, I thought you should know about it.

The Census Bureau now adjusts 88.5 percent of imports and 79.0 percent of exports for seasonality (up from 85.0 and 71.4 percent last year, respectively). This leaves a significant fraction of the trade data without seasonal adjustment. On my request, Diane Oberg and Mark Viator aggregated all the NSA components (except crude oil) and passed them through their X-12 program. Crude oil seasonals were estimated separately. As shown in her letter (the first document which I am faxing to you), the F-test on the null hypothesis of no seasonality in nonoil net exports, produces an F-statistic of 5.9, which Census regards as marginal seasonality and I regard as clear seasonality. For crude-oil imports (the second document faxed to you), the evidence for seasonality is even stronger, with an F-statistic of 16.4. These results show that seasonality is entering the official "seasonally-adjusted" data through its unadjusted components.

Using seasonal factors provided by the Census Bureau for the two NSA components (oil and non-oil), we have computed the uncorrected seasonality in the first-difference of net exports in 1996 (in current dollars).

Uncorrected Seasonality in the Change in Net Exports (1996)

(in billions of current dollars at an annual rate)

	Q1	Q2	Q3	Q4
nonoil net exports	-4.9	6.3	-8.9	7.9
oil imports	-4.7	5.4	2.4	-2.7
total uncorrected seasonality in net exports (nonoil- oil)	-0.2	0.9	-11.3	10.6

As can be seen, the seasonal bias for oil and non-oil are roughly offsetting in the first and second quarters but are reinforcing in the third and fourth quarters. Roughly speaking, the effect of spurious seasonality is to reduce third-quarter GDP growth by about 1/2 percentage point and to elevate the fourth-quarter growth by about the same amount.

I think the Census Bureau's hurdle for accepting seasonal adjustment is too high for the purposes of the National Income Accounts--although it may be appropriate for other purposes.

First, the agency decides one-at-a-time whether to adjust the hundreds of items in the trade data. It is possible that no individual series might pass the test, while the sum of the series retains significant seasonality.

Second, a series might be rejected because its monthly seasonal factors are unstable--with a seasonal surge alternating between, say, November and December. But for the purposes of the NIPAs, only quarterly figures would matter--and seasonal adjustment at this frequency would be stable and appropriate.

Third, the statistical hurdle is set too high--with F-statistics of 6 or more required, in most cases. While statisticians may be happy with this criterion, it may be overly rigorous for a National Income Accountant. (I am aware that conventional p-values for F-statistics don't apply to the moving averages in the X-11 program.)

I hope that this message arrives in time to be helpful.

Steven Braun
Director of Macroeconomic Forecasting
Council of Economic Advisers
phone: 202-395-4666
braun_s@a1.eop.gov