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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Ryan D. Edwards to Steven N. Braun, Jeffrey A. Frankel, Douglas W. Elmendorf, and Janet L. Yellen at 12:04:51.00. Subject: OECD March 99 tentative schedule. (partial) (1 page)	09/21/1998	b(6)

COLLECTION:

Clinton Presidential Records
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FOLDER TITLE:

[09/16/1998 - 09/23/1998]

2013-0723-F
ab1285

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: Elizabeth A. Arner (CN=Elizabeth A. Arner/OU=WHCCTF/O=EOP [WHCCTF])

CREATION DATE/TIME:16-SEP-1998 15:11:56.00

SUBJECT: Briefing Papers for 9/17 Gas Pipeline CEO Meeting

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

TO: Nancy Marlow (CN=Nancy Marlow/OU=CEQ/O=EOP @ EOP [CEQ])
READ:UNKNOWN

TO: Jonathan H. Adashek (CN=Jonathan H. Adashek/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

TO: Kathleen A. McGinty (CN=Kathleen A. McGinty/OU=CEQ/O=EOP @ EOP [CEQ])
READ:UNKNOWN

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

CC: Dirk Forrister (CN=Dirk Forrister/OU=WHCCTF/O=EOP @ EOP [WHCCTF])
READ:UNKNOWN

TEXT:
Attached are the breifing materials for the meeting tomorrow with CEOs from the gas pipeline industry. The meeting will begin at 2:30pm in the Roosevelt Room. There will be a prebrief in Todd Stern's office at 2:00pm.

The papers are:

Meeting paper and background: ngmtg.ceo
Information on companies and CEOs: ngcos.ceo
INGAA proposal on Climate Change: ngingaa.wpd

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D22]MAIL46089785I.226 to ASCII,
The following is a HEX DUMP:

September 16, 1998

Meeting with Natural Gas Transmission Executives on Climate Change

DATE: September 17, 1998
LOCATION: Roosevelt Room
TIME: 2:30 - 4:00 p.m.
FROM: Dirk Forrister

I. PURPOSE

To meet with four CEOs from the natural gas pipeline industry to discuss cooperative efforts to reduce greenhouse gases. Combined, the companies at the meeting service approximately 35% of the U.S. natural gas market.

Key objective for meeting: Begin a productive dialogue that will have the buy-in of top level industry management. The meeting will include a discussion of (1) our approach to climate change, (2) the industry's perspective on the issue, and (3) how we can work together to make real progress.

We are looking to enter into the first set of voluntary agreements with a number of industries in the fall. They should include four simple elements:

- an agreement to do an emissions **inventory** and to establish ongoing emissions **measurement** by a date certain;
- an agreement to review energy practices and **options** for improving emissions by a date certain;
- a statement of an initial "**stretch goal**" for emissions reduction or improved energy efficiency; and
- an agreement to formulate an **action plan** by a date certain for achieving the goal.

II. BACKGROUND

Highlights on Industry and Actions

- Natural gas transmission companies own and operate interstate and intrastate pipelines that collect natural gas from field operations and processing plants and deliver it to end-customers (usually large commercial or industrial enterprises) or to local distribution companies (LDCs) who deliver it to end-customers (primarily commercial, residential and industrial).

- Statistics for 1995 indicate that the U.S. has over 264,900 miles of transmission pipeline, 14,037,000 horsepower to operate compressors to move the gas, and about 400 gas storage facilities with a total capacity of 7,788 Bcf.

- The current infrastructure for transmission is near full capacity, averaging 95% utilization in 1997.

- There are 91 transmission companies in the U.S. Thirty companies own and operate over 90% of the transmission mileage. These companies are listed in Table 1 (companies in bold are represented at the meeting).

Table 1: Top Thirty Transmission Companies by Miles of Pipeline

Company	Mileage	Company	Mileage
Northern Natural Gas Co (Enron)	15,637	**Florida Gas Transmission (Enron)**	5,203
Tennessee Gas Pipeline Co.	14,610	CNG Transmission Corp.	4,301
Columbia Gas Transmission Corp.	11,215	Trunkline Gas Co.	4,134
Transcontinental Gas Pipe Line Corp.	10,462	Northwest Pipeline Corp.	3,932
Natural Gas Pipeline Co (KN)	10,076	Columbia Gulf Transmission Co.	3,724
El Paso Natural Gas Co. (TN Gas)	9,865	Colorado Interstate Gas Co.	3,392
ANR Pipeline Co.	9,553	Williston Basin Interstate Pipeline Co.	3,063
Texas Eastern Transmission Corp.	9,501	**Transwestern Pipeline Co (Enron)**	2,532
Southern Natural Gas Co.	7,612	Houston Pipeline	2,138
Koch Gateway Pipeline Co.	7,252	Great Lakes Gas Transmission Co.	2,005
Panhandle Eastern Pipe Line Co.	6,467	**Miss River Transmission (HITTG)**	1,976
NorAm Gas Transmission (HITTG)	6,228	National Fuel Gas Supply Corp.	1,613
KN Interstate Gas Transmission Co.	6,018	Questar Pipeline Co.	1,580
Texas Gas Transmission Corp.	5,793	Arkansas Western Gas Co.	1,353
Williams Natural Gas Co.	5,744	Pacific Gas Tran	1,336

- The Energy Policy Act of 1992 (EPACT) and FERC Order 636 were the primary drivers for the transformation of the natural gas industry from a highly regulated industry to a competitive market-driven industry, which has resulted in significant downsizing and restructuring. EPACT also expanded opportunities for greater utilization of natural gas in transportation and electric power generation.

- The primary elements of Order 636 are:
--"unbundling" or separating the transportation services from sales services;
--allowing interstate pipeline companies to sell gas at a market-based rate;
--requiring companies that provide bundled citygate service to offer flexible services (no "no-notice" transportation service and transmission service from the production company of the gas purchaser's choice);
--requiring pipeline companies to provide customers with open access to storage;
--ensuring tariffs don't inhibit market center or production pooling area development;
--establishing new generic capacity assignment mechanisms;
--establishing straight fixed-variable (SFV) rate design as the preferred method;

--allowing pipeline companies to abandon sales and interruptible transportation service;

--requiring firm shippers to be flexible to changing receipt points.

FERC Order 587-G required the establishment of a uniform system using the Internet and standardized protocols to govern business transactions and electronic communication to allow buyers and sellers to know what the available volumes and prices are at any time and at any place in the U.S.

- Air pollution regulations and climate change concerns may encourage fuel switching to natural gas for electric utilities because gas-fired generation options consistently have the lowest rates of SO_x, NO_x, and CO emission rates among fossil fuels.

Overview of Stretch Goal

- Primary greenhouse gas emissions generated by this industry are carbon dioxide and methane. Methane emissions occur during the movement of gas through the pipelines and during repair and maintenance. Methane and Carbon dioxide emissions occur in the combustion to run the machinery which operates the pipelines.

- In 1996, GHG emissions from the transmission industry are estimated to total 21.1MMTCE, approximately 8.7MMTCE for CO_2 and approximately 12.4MMTCE for methane.

- Under a "Business as Usual" scenario, the industry is projected to grow at 0.9% per year through 2010, resulting in methane emissions at 14MMTCE in 2010. However, this incorporates a growth scenario and emissions per unit of output are expected to drop by 3.7% below 1990 levels.

- A "stretch goal" takes into account cost-effective measures to reduce methane emissions and translates into a 22% reduction over BAU 2010 emissions.

Primary Issues of Concern

- As of 1996, the Energy Information Administration reports that projected demand for natural gas has prompted numerous pipeline construction projects that, when completed, will increase interregional capacity by as much as 14.7 billion cubic feet (Bcf) per day, or 17% from the 1996 level.

- The industry wants formal recognition that natural gas is a part of the solution for climate change. To utilize natural gas in this role will mean greatly expanding the pipeline system which creates two issues for the pipeline companies:
  1. The need for assistance from the Government to reduce or streamline the regulated aspects of the industry so that natural gas transmission capacity can grow;

2. The need for a streamlined National Environmental Policy Act (NEPA) review process, especially related to new pipeline construction.

- The Council on Environmental Quality has the lead on a proposed memorandum of understanding that will coordinate and streamline review and authorization of interstate natural gas pipeline projects. The effort is currently stalled because of a Congressional ban, which may be lifted in the near future.

- The industry also stresses the need for ground rules to govern market-based incentives for early voluntary reductions and credit for past and current voluntary actions resulting in reductions of emissions prior to the specified budget period.

III. EXPECTED NEXT STEPS

- The Interstate Natural Gas Association of America (INGAA) has developed a draft discussion paper which outlines six areas of cooperation which would allow them to determine a goal for emissions reductions:
  1. Provide additional gas to expanding natural gas markets.
  2. Promote the establishment of early domestic emission reduction credits with baseline protection for greenhouse gases and coordinate existing emissions reductions programs.
  3. Participate in emissions trading.
  4. Expand INGAA member company voluntary emission reduction programs.
  5. Invest in Clean Development Mechanism and other international opportunities.
  6. Assist in technology transfer to developing nations.

- Under EPA's Natural Gas STAR Program, twelve transmission companies (representing 65% of all gas pipeline mileage) have begun to refine methane emissions estimates from a variety of sources. Gas STAR has also provided a review of options to reduce emissions to the industry and has identified the most practicable in its best management practices. Work to estimate CO_2 and provide options for reductions can be added.

- Developing a stretch goal and plan for meeting this goal will likely result in several options: (1) Goal for increased capacity based on tracking emissions per unit of throughput; (2) Goal for reducing greenhouse gas emissions per unit of output; and (3) Modifications to goals based on R&D efforts.

IV. EVENT PARTICIPANTS

Administration:
Todd Stern, Assistant to the President for Special Projects
Katie McGinty, Chair, Council on Environmental Quality
Janet Yellen, Chair, Council of Economic Advisors
Dirk Forrister, Chair, White House Climate Change Task Force
Janet Anderson, White House Climate Change Task Force
Elizabeth Arner, White House Climate Change Task Force

Paul Stolpman, Environmental Protection Agency

Natural Gas Transmission Industry:
Stanley Horton, Gas Pipeline Group
Charles Oglesby, Houston Industries
John Riordan, KN Energy
John Somerhalder, Tennessee Gas & Pipeline
Jerry Halvorsen, Interstate Natural Gas Association of America

Industry Staff:
Terry Boss, Interstate Natural Gas Association of America
Lisa Beal, Interstate Natural Gas Association of America
Lorraine Cross, Interstate Natural Gas Association of America

IV. PRESS PLAN

Respond to press inquiries.

Stanley Horton, Chairman and Chief Executive Officer, Enron Gas Pipeline Group
Enron's Gas Pipeline Group is composed primarily of four interstate natural gas pipelines, which total more than 32,000 miles of pipe across the U.S. **Northern Natural Gas** (NNG) serves the U.S.'s upper Midwest market. With 16,969 miles of pipeline, NNG transported an average of 4.4 billion cubic feet per day (Bcf/d) of gas in 1997. The 2,660-mile **Transwestern Pipeline** transports gas east and west between markets in California and the Texas/Oklahoma region. Transwestern moved 1.4 Bcf/d in 1997. **Florida Gas Transmission**, a 4,949-mile system owned 50% by Enron, moved 1.3 Bcf/d of gas from Texas across the Gulf Coast states and into Florida in 1997. The 970-mile **Northern Border Pipeline**, 8% owned by Enron through a limited partnership, is the largest transporter of natural gas from Canada to the U.S. and moved 1.8 Bcf/d of gas in 1997. A major expansion project beginning in November 1998 will deliver 700 MMcf/d of new gas into the Chicago area.

Charles Ogleby, President and Chief Operating Officer, Houston Industries Trading & Transportation Group
Houston Industries Trading & Transportation Group (HITTG) provides a full range of energy and risk management services through its pipeline, gathering, trading and marketing affiliates. The group handles approximately 2.2 trillion cubic feet of natural gas per year and markets about 2.6 billion cubic feet per day. The group began wholesale marketing of power in 1995 and currently markets about 25 million megawatt-hours annually. **NorAm Energy Services** (NES) NES offers non-rate regulated energy supply and marketing, offering a comprehensive range of wholesale electric power and natural gas marketing and risk management services tailored to meet the needs of its customers. NES serves all regions of the United States, as well as Canada and Mexico, and is currently marketing approximately 2.7 Bcf/day of natural gas and 25 million megawatt-hours of electric power annually. *Houston Industries was the only natural gas transmission company to submit anything under DOE's Climate Challenge program and 1605b reporting process.*

John Riordan, Chief Executive Officer, KN Energy
KN Energy is an integrated energy services company with operations that include natural gas gathering, processing, marketing, storage transportation, energy commodity sales - natural gas, liquids and field services - and innovative services designed for consumers, utilities and commercial entities. They operate in 16 western and mid-continent states and have more than 230,000 residential, commercial, industrial and agricultural customers.

John Somerhalder, President, Tennessee Gas Pipeline Company
Tennessee Gas Pipeline Company oversees the eastern portion of **El Paso Energy's** 26,600 mile mainline transmission system. The company operates Tennessee Gas Pipeline, East Tennessee Natural Gas and Midwestern Gas Transmission. Over 16,300 miles of pipeline powered by 90 compressor stations transport natural gas supply regions in Texas, Louisiana and the Gulf of Mexico to markets in 20 eastern and midwestern states as well as major metropolitan areas including Boston, New York and Chicago.

Jerry Halvorsen, President, Interstate Natural Gas Association of America
INGAA is a trade organization that advocates regulatory, legislative and individual positions of

importance to the natural gas pipeline industry. INGAA's membership includes virtually all of the interstate natural gas transmission companies operating in the United States, as well as comparable companies in Canada, Mexico, Europe, Asia and South America. INGAA's members include 30 U.S. interstate pipelines, six Canadian interprovincial pipelines and 13 international pipeline companies.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: David W. Beier (CN=David W. Beier/O=OVP [UNKNOWN])

CREATION DATE/TIME:18-SEP-1998 19:17:12.00

SUBJECT: Package

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

TEXT:
I will send to you on Tuesday the package of materials I received from Congressman Pascrell and a brief 4 page analysis done by Carl at Treasury. I appreciate your willingness to look at this material (I would just read the Treasury document and quickly skim the other). At some point in the future (probably after the Congress recesses) we should offer to meet with Pascrell. thanks again for your offer of assistance.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-SEP-1998 11:07:10.00

SUBJECT: EMF-16 modeling results

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

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

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

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

CC: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
I received a summary table of EMF-16 modeling results. Enclosed is a table showing the permit prices for complying with Kyoto under Annex I and global trading with 10 models participating in EMF. We are in the process of following up with the modelers for more information to better understand the range of results.

Joe

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D51]MAIL44097406L.226 to ASCII,
The following is a HEX DUMP:

EMF-16: Modeling Exercises of Kyoto Protocol.

Model	Annex I Trading	Global Trading
FUND	$17/ton	$11/ton
G-Cubed	$38/ton	$13/ton
RICE	$42/ton	$13/ton
SGM	$101/ton	$27/ton
MIT	$177/ton	$36/ton
AIM	$77/ton	$45/ton
MRT	$115/ton	$50/ton
CETA	$106/ton	$61/ton
MERGE3	$179/ton	$139/ton
Oxford	$267/ton	$147/ton

All permit prices are in 1997$.
Sinks are assumed to be zero.
Non-carbon dioxide greenhouse gases are assumed to have no offsetting impact on the magnitude of carbon dioxide emissions reductions necessary to comply with Kyoto targets.
In global trading, non-Annex B countries are assumed to have targets set at 2010 BAU.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-SEP-1998 16:48:24.00

SUBJECT: organizing framework

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

TEXT:
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 09/18/98
04:47 PM ---------------------------

Charles F. Stone

09/18/98 04:02:21 PM
Record Type: Record

To: Janet L. Yellen/CEA/EOP, Nouriel Roubini/CEA/EOP
cc:
Subject: organizing framework

Here is a stab at an organizing framework for talking about the New Deal
and Russia's current economic crisis. Many sections from Nouriel's
document could probably be embedded at appropriate points. Or, we might
think of fleshing out (and fact checking) the framework as one document,
or part of a document, and presenting a set of talking points as a
separate document, or section of a document.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D22]MAIL499732169.226 to ASCII,
The following is a HEX DUMP:

The New Deal and Russia's Current Economic Crisis

I. Are the economic conditions in Russia today similar to those of the U.S. in the 1930s?

- The Great Depression in the United States was marked by substantial unemployment, extensive idle industrial capacity, and falling prices.

- In Russia today, there may be idle and unpaid workers, but there is some question as to whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a growing problem in Russia.

- The United States had a balanced Federal budget through 1930 and no external debt. Russia has a large budget deficit and large external debt.

II. What economic policies were pursued during the New Deal and how do they compare with policies being proposed in Russia today?

A. Macroeconomic Policy

- Monetary policy in the Great Depression was contractionary, especially in the early years. According to one influential view, excessively tight monetary policy caused the contraction of the U.S. economy.

- Fiscal policy was at best only modestly expansionary. Deficits in the early to mid-1930s were about the same magnitude relative to GDP as they were in 1980s. The main reason for the rise in deficits relative to GDP is a sharp contraction in both revenues and GDP in the early 1930s. By the mid-1930s expenditures were rising as well, reflecting New Deal spending.

- Given the substantial idle capacity in the U.S., more expansionary policies would have been appropriate. Greater fiscal stimulus and an accomodative monetary policy would have provided the necessary stimulus to aggregate demand to put people back to work.

- Inadequate aggregate demand seems less important in Russia today than inadequate aggregate supply. In addition to any problems related to the transition to a market-oriented economy, Russia has been hit by low oil-prices.

- If Russia's problem is primarily one of aggregate supply, an expansionary monetary policy is more likely to cause inflation than to boost real GDP.

B. Microeconomic Policy

- Substantial New Deal activity concerned intervention in individual markets and sectors.

- In some cases, this involved useful, long-lasting reforms, such as the creation of the Securities and Exchange Commission and other measures designed to strengthen the legal and regulatory framework in ways that helped markets work better.

- In many cases, however, New Deal interventions have subsequently been viewed as inappropriate. These include: extending economic regulation of prices and entry to airlines and trucking; attempting to limit production in many industries in order to manage excess capacity and keep prices up.

- The New Deal created the basic structure of farm policy that endured until the 1996 Farm Act.

- The New Deal changed the Federal role in the supervision and regulation of banking, putting restrictions on banks with respect to lines of business and creating deposit insurance.

- Russia lacks many of the important institutions necessary to help markets work, so pursuing policies that emulate the New Deal with respect to strengthening bank and securities regulation and oversight would be very beneficial.

- Russia also faces the temptation to return to substantial government control over what goods and services are produced and what prices are charged. This might be construed as emulating the New Deal, but not its more positive aspects.

- The bottom line for Russia with respect to microeconomic policy is that it needs to strengthen the institutions that make markets work while resisting the temptation to interfere in the normal workings of markets. Efforts to draw lessons or inspiration from the New Deal would not seem to be worthwhile since the New Deal was such a hodge-podge of often-contradictory policies that there is no clear lesson.

C. Social Policy

- Many of the institutions that formed the core of the postwar social safety net were created in the New Deal, including Social Security, Aid to Dependent Children, and Federally supervised Unemployment Insurance.

- The New Deal also saw substantial strengthening of U.S. labor unions and the institution of collective bargaining to resolve labor disputes.

- For Russia, creation of a safety net and labor relations institutions suitable to a market-oriented economy would seem to be legitimate objectives, and looking to the New Deal for inspiration would seem plausible.

III. Conclusion: Political Intangibles

Perhaps the greatest achievement of FDR and the New Deal was maintaining the viability of America's political and social institutions in a time of severe economic stress. Questions about whether specific policies were appropriate or consistent with one another were probably far less important than the impression FDR conveyed that he cared about the average American's plight and was working hard to make things better. In general, FDR tried to address and balance the concerns of all competing interests rather than single out any one for special treatment.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-SEP-1998 16:01:37.00

SUBJECT: organizing framework

TO: Nouriel Roubini (CN=Nouriel Roubini/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:
Here is a stab at an organizing framework for talking about the New Deal and Russia's current economic crisis. Many sections from Nouriel's document could probably be embedded at appropriate points. Or, we might think of fleshing out (and fact checking) the framework as one document, or part of a document, and presenting a set of talking points as a separate document, or section of a document.=================== ATTACHMENT 1
===================

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D89]MAIL49129116F.226 to ASCII,
The following is a HEX DUMP:

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- Given the substantial idle capacity in the U.S., more expansionary policies would have been appropriate. Greater fiscal stimulus and an accomodative monetary policy would have provided the necessary stimulus to aggregate demand to put people back to work.
- Inadequate aggregate demand seems less important in Russia today than inadequate aggregate supply. In addition to any problems related to the transition to a market-oriented economy, Russia has been hit by low oil-prices.
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- In many cases, however, New Deal interventions have subsequently been viewed as inappropriate. These include: extending economic regulation of prices and entry to airlines and trucking; attempting to limit production in many industries in order to manage excess capacity and keep prices up.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-SEP-1998 10:42:38.00

SUBJECT: Sorry, here is the attachment on Russia and the New Deal

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

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D19]MAIL439454062.226 to ASCII,
The following is a HEX DUMP:

RUSSIA AND THE NEW DEAL: TALKING POINTS

Deflation versus inflation. The New Deal was addressing the problem that in the Great Depression there was a problem of deflation as prices were falling: for the 1929-1939 the compound annual deflation rate was 1.4 percent. In Russia, instead, the problem is one of inflation. In fact, the CPI rose 5.6% in the second week of Sept, following a 36% surge in the first. Thus, by the middle of the month the index stood 42% above its Aug level and 72% higher than a year ago.

We need to help the poor but inflation is the most regressive tax. The objective of helping the poor, paying back wages and so on are very sensible but one should note that monetary financing of deficit leads to inflation that is the most regressive tax of all. You can pay your workers by printing rubles but in three months the real value of their wages will be much lower because of inflation; you are going to hurt them rather than help them. Inflation is the most regressive tax. In the New Deal, instead, as price were falling, the real wages of employed workers were rising.

Instability Dangers of inflationary finance. Inflationary finance is more similar to the experience of the Weimar Republic than to the New Deal. The hyperinflation of the early 1920s in Weimar was a contributing factor of the extreme social and political turmoil that eventually led to the rise of the Nazi Party. Hyperinflation leads to severe instability and possible authoritarian regimes. The New Deal had deflation of prices not inflation. Russia already experience inflationary finance and hyperinflation in the early 1990s when there was economic and political choas; there is a serious risk now of another dangerous hyperinflationary explosion.

The New Deal created a true social safety net; inflationary finance in Russia will hurt the poor and downtrodden not help them. There is a lot that can be done in Russia to create a true social safety net to help the poor and suffering. FDR and the New Deal created such a safety net and increased the role of the welfare state, even if less than in Europe. However, such policies were not financed with inflationary and regressive inflation taxes. They were financed with a stronger tax system able to collect more taxes in a fair and broad way. Russia should built a broader safety net to help those who need. However, inflationary finance will destroy even more the incomes and little wealth of such poor people. You need to build a social safety net financed by higher taxes that are collected in a fair and non-distortive manner. You need to strengthen your tax collection administration to make sure that the well off pay a fair share to help the burden of the poor. Inflation will only help the rich and hurt the poor even more.

The budget deficits of the New Deal were small and financed with bonds, not with money. While the Depression led to large deficits and fiscal measures to stimulate the economy, the overall fiscal expenditure was much less than the keynesian rethoric would suggest. Fiscal policy was overall quite tight and government spending rose dramatically only after 1941 when the US joined WWII. In the 1930s New Deal fiscal expansion was modest and financed with bonds, not with money.

The New Deal dealt with a Great Depression that was about lack of aggregate demand in

face of excess aggregate supply of good. During the Great Depression, aggregate demand for goods was severely down while factories and plants were idle; output fell by over 20% and the unemployment rate rose above 25% and major measures to stimulate demand were required. In Russia, instead, there is the beginning of a recession and output will fall by 3% this year but you cannot compare this with a Great Depression. It is not obvious that a lack of demand in face of a excess supply is the problem as inflation is rapidly rising.

It is a myth that during the New Deal fiscal policy was very expansionary and that such policies led to a rapid recovery of economic growth. Overall, during the New Deal fiscal policy was modestly expansionary and contribute little to economic recovery. The New Deal was not an economic revolution and its policies did not end the Great Depression. As late as 1939, six years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17.2 %. This was an improvement over the 25% of 1933 but it was still a depression size figure. Only WWII eventually led to the recovery of high growth.

Part of the populist New Deal policies were about controlling big business and finance, not bailing them out as Russia might do now. The populist aspects of the New Deal were about controlling the power of big business (big banks, Wall Street and large corporations) though antitrust and other measures. In Russia, instead, inflationary finance and easy credits will bail out the powerful and corrupt banks and large monopolistic corporations at the expense of the average individual whose real income will be destroyed by inflation. Inflation helps the rich whose debts are wiped out and who can shelter its wealth by buying inflation proof assets while it hurts the workers and the poor whose real incomes and wages are destroyed by the debasement of the value of the currency.

New Deal policies were about fostering competition and combating monopolies, not strengthening such monopolies. New Deal policies tried to aggressively reduce the power of big business and increase market competition via antitrust regulation and strong pro-competition polices. In Russia, big and powerful monopolies dominate the economy and there is not enough competition in the market. Policies aiming at bailing out big and corrupt business and banks will increase their power at the expense of the average citizen, not reduce them. Such policies are regressive, not progressive.

The New Deal fostered many market-based policies and institutions, not severely limit the power of the market. During the New Deal, many policies fostered a stronger open market-based economies: price controls were avoided, competition policies pursued and corporations were not nationalized. Institutions were created to strengthen the rule of law and the sanctity of contracts in the market: the Securities Act of 1933 and the Securities Exchange Act of 1934 tamed the power of Wall Street and brought corporate behavior into the sunshine with the requirement that all publicly owned companies submit annual reports certified by independent public accountants.

The New Deal was more about microeconomic reforms to foster a sound market economy than about grandiose macro policies of fiscal expansion. While the New Deal is incorrectly associated with the Keynesian macro policies of fiscal expansion, such policies were aggressively pursued only during WWII and after WWII. The New Deal was more about micro reforms than about stimulating the economy by spending and printing money.

The regulation of business during the New Deal had the objective to control overcapacity in a period of excess capacity. While there was a significant amount of regulation of industry and business during the New Deal, most of this regulation started from the premise (now considered dubious) that there was an excess capacity in the economy and excess supply so that production should be limited in many sectors. Russia does not face a problem of overcapacity now, if anything Russia should produce more rather than less. Also, the severe regulation of many industries during the New Deal has been criticized as misguided by recent work. For example, by the 1960s, scholarly analysis began to conclude that trucking and air transportation should have never been drastically regulated. And, by the 1970s, a 'regulatory reform' movement ranging from liberal democrats anxious to reduced rates and fare and conservative Republican enamored of free markets led to a significant deregulation of the airline, trucking and other industries. Returning to Soviet Era regulation of industries will reduce competition, will increase monopoly power and will hurt the average individual.

As in the New Deal, Russia needs to foster a mixed economy where the government play its important role but where there is a strong market economy and an environment truly fostering solid business development, not speculative and corrupt monopolies. Among the things needed for a better business environment, as suggested on 9/17 by D/S Summers said, are: "sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need, and it means the prevention of hidden anti-competitive ties between government and business interests."
The New Deal did all that and was succesful. Russia cannot do any less to be succesful.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-SEP-1998 13:34:08.00

SUBJECT: Re: www site bio - update attached

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

TEXT:
Attached is a revised version of the bio--I made only two tiny changes. I am also attaching a speech that I gave to the Macroadvisers Annual Symposium. I wonder if you could put it up on the Web site as well under speeches. Thanks for the help.=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D95]MAIL463785064.226 to ASCII,
The following is a HEX DUMP:

JANET L. YELLEN
CHAIR
COUNCIL OF ECONOMIC ADVISERS

Janet L. Yellen was appointed Chair of the Council of Economic Advisers (CEA) by President Clinton and confirmed on February 13, 1997. Dr. Yellen previously served as a Member of the Board of Governors of the Federal Reserve System. She was appointed to that position by President Clinton in February 1994.

Since becoming a member of the Federal Reserve Board, Dr. Yellen has been on leave from the Haas School of Business at the University of California at Berkeley, where she has taught since 1980 and where she was the Bernard T. Rocca, Jr. Professor of International Business and Trade. She also served on the Panel of Economic Advisers for the Congressional Budget Office and as senior adviser to the Brookings Panel on Economic Activity.

Dr. Yellen was Assistant Professor at Harvard University from 1971-1976. She also served as an economist with the Federal Reserve's Board of Governors from 1977-1978, specializing on issues of international trade and finance, including stabilization of international currency exchange rates.

Dr. Yellen has written on a wide variety of macroeconomic issues, while specializing in the causes, mechanisms and implications of unemployment. She is also a recognized scholar in international economics, recently focusing on the determination of the trade balance, as well as the course of economic reform in Eastern Europe.

Dr. Yellen was born on August 13, 1946, in Brooklyn, New York. She graduated summa cum laude from Brown University with a degree in economics in 1967, and received her Ph.D. in economics from Yale University in 1971.

Dr. Yellen is married to George Akerlof, who is Professor of Economics at the University of California, Berkeley and Senior Fellow at the Brookings Institution. They have one son, Robert, who is a senior at St. Albans.

Remarks of Janet L. Yellen

Chair, Council of Economic Advisers

to Macroeconomic Advisers' Washington Policy Symposium

September 10, 1998

It's a pleasure to join you today. A predecessor of mine on the Council of Economic Advisers warned me that on many days CEA members feel like those little steel balls in pinball machines--bouncing back and forth from one short deadline project to the next, forced to switch directions rapidly and with little warning. I understand what he meant. Crises requiring immediate attention are rarely in short supply.

Even so, a substantial portion of the Administration's economic agenda relates to longer term issues that will be critical to the performance of the U.S. and world economies not next week or next year but instead decades or even further in the future. We have had the luxury of elevating the priority of these longer term issues because the fundamentals of the U.S. economy are extremely sound. This assessment, offered repeatedly by the President and other Administration officials, remains accurate, in my view, in spite of our increasing vulnerability to repercussions from the current international financial crisis. Obviously, we have not escaped the effects of the Asian crisis. It has taken a toll on U.S. exports, which, according to our estimates, are down about $30 billion at an annual rate, as a direct result. It is causing losses at major financial institutions with emerging market exposure. And it is clearly contributing to volatility in our own financial markets. A widening or deepening of the crisis remains the single greatest threat to the continued expansion of the U.S. economy. The Administration is intensely focused on the need to restore growth to the world economy and stability to the world's financial system.

That said, the American economy has been and still is enjoying its best performance in decades, with unemployment and inflation at the lowest levels in a generation, a rate of national saving which is double what it was six years ago, real wage growth which has recently been the highest in two decades, and, importantly, a federal budget which is in surplus this year after three decades of deficits. As my colleague Joe Minarik undoubtedly emphasized this morning, if we maintain the fiscal discipline now in place, budget surpluses over the next decade are projected to exceed $1.5 trillion under both CBO and OMB (MSR) assumptions. It is in good economic times like these, that we have the luxury and the resources to anticipate problems ahead and prepare for them. Moreover, the cost of addressing longer term problems is usually lower when one has the foresight and discipline to act early than if one procrastinates.

Three of the central issues on our longer term economic agenda are the development of policies to reduce the risk of future crises in the international financial system, namely the design of a new financial architecture; measures to address the consequences of global climate change; and Social Security reform. Seeing that your agenda for this conference includes discussion of the first two of these topics, I thought I might most usefully focus on the third--Social Security reform--in my remarks today. My objective is to describe the problem we face, the President's principles for evaluating reform options, and some of the difficult tradeoffs that must be faced in devising a reform.

In his State of the Union address, the President proposed to "Save Social Security First" by reserving every penny of the surplus until we have agreed on a plan to secure the financial viability of Social Security. To accomplish this task, the President proposed a process of public education and debate followed by the forging of a bipartisan agreement. He and the

Vice-President have participated over the last five months in a number Social Security fora, whose purpose has been to afford Americans the opportunity to better understand the problems facing the Social Security system and to explore alternative solutions to these problems. This process of public discussion will culminate with a White House conference in December. The plan is to then begin bipartisan negotiations with Congressional leaders in January 1999 to devise a comprehensive plan to strengthen Social Security.

I think it is fair to say that the President's proposal to Save Social Security First has been enormously popular--so much so that there exists strong bipartisan support for tackling reform. Certainly, the Administration remains committed to its pledge to leave every penny of the surplus intact until reforms are enacted. The President's budget proposed new initiatives in a number of key areas, including child care, education, the environment and health care, but all of the proposed initiatives were paid for so that they would not deplete projected surpluses.

It should come as no surprise that Americans are eager to fix Social Security, because it is an extremely successful social program. For almost 60 years, Social Security has provided Americans with income security in retirement and protection against loss of family income due to disability or death. Social Security retirement benefits are indexed for inflation and provide a lifetime annuity--a package which is difficult if not impossible to obtain in private markets. In fact, less than half of all individuals aged 65 and older received any private pension benefits in 1994. As a result, Social Security benefits are the largest source of income for 2/3 of those in this age group and the only source of income for 18 percent of them. The system has enjoyed dramatic success in reducing the poverty rate among retirees, helping to lower the elderly poverty rate from 35 percent in 1959 to 11 percent in 1996. Social Security is also more than just a pension plan: It is a family protection plan, and nearly 1 in 3 beneficiaries are not retirees. For the average wage earner who dies and leaves a spouse and two children, Social Security provides survivors benefits equivalent to a $300,000 life insurance policy; one in six 20 year olds will die before retirement age. Social Security also provides disability protection, and 3 in 10 20 year olds will become disabled for some period before retirement.

The most commonly used yardstick to measure the financial soundness of the Social Security system is the 75-year actuarial balance. The Social Security actuaries now project that the current balance in the Trust Fund together with projected revenues over the next 75 years will be insufficient to fund the benefits promised under current law. By 2013, payroll contributions are expected to fall short of benefits; by 2021 the shortfall is expected to exceed Trust Fund interest earnings, so the Trust Fund will begin to decline; and by 2032, the Trust Fund is expected to be depleted, after which time contributions would still be sufficient to pay about 75 percent of current law benefits. Of course, future taxes and benefits depend on a variety of economic and demographic factors that cannot be predicted perfectly, so the actual problem may be smaller or larger than we now believe. Nevertheless, the intermediate projections of the actuaries imply that the imbalance in the Old Age, Survivors' and Disability Insurance program over the next 75 years amounts to around 2-1/4 percent of taxable payroll, or about 1 percent of GDP. That is the most common way to scale the current problem. As the CEA noted, however, in its 1997 Economic Report, the 75-year actuarial balance actually understates the financial imbalance over the very long term because the actuaries' projections show surpluses in the early years of the 75 year horizon and growing deficits later on when demographic forces have their full effect.

Although Social Security faces a financial imbalance, poll results suggest that the magnitude of the problem has been exaggerated in the minds of many who report that they doubt that Social Security will be there for them at all. In fact, although the seriousness of the financial imbalance facing Social Security should not be downplayed, its magnitude is not so large as to be insurmountable, particularly if early action is taken. This is a solvable problem, and many ideas have been and will be put on the table to address it.

The President has emphasized that at this stage in the national debate he remains open-minded and committed to giving every option a fair hearing. It is far too early to prejudge the outcome of the debate. However, the President has set forth five principles to guide the reform process, reflecting his judgement about the appropriate goals for reform. His first principle is to strengthen and protect Social Security for the 21st century. This is an overriding goal, and it warns against proposals that fail to provide a comprehensive solution to the solvency problem. For example, a proposal that simply diverts existing payroll taxes into a new system of individual accounts would not qualify as a comprehensive solution because it reduces Social Security's revenues and makes the existing imbalance even larger. However, several comprehensive proposals have been advanced that include such individual account carve-outs.

A second principle for Social Security reform is to maintain fiscal discipline--to insure that surpluses are not drained before addressing Social Security reform, and that fiscal policy plays a helpful role in preparing for the retirement of the baby boomers. The key factors contributing to the projected Social Security imbalance are improvements in life expectancy and a reduction in birth rates, which have put us on a path of rapid declines in the number of employed workers for every retired American. When the Social Security Act was passed in

1935, the life expectancy of a 65 year old American was about 13 years. Today, life expectancy for a 65 year old is 18 years and rising. At the same time, people are retiring earlier. In 1950, the average age for first receiving Social Security retirement benefits was 68; today it's 63. As a consequence of these changes, the ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling.

In addition to the aforementioned effects on OASDI, this demographic transition will have important effects on the Medicare and Medicaid programs as well as on the economic environment outside the government. For the nation as a whole, the central problem is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute.

National saving increased from 3.4 percent of net national product in 1992 to 7.6 percent in the first half of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output. If the projected budget surpluses are saved, they will add to national saving; moreover, $130 billion of surplus placed in the Trust Fund and invested in government bonds would extend the expiration date of the Trust Fund by roughly a year or reduce the taxable payroll gap by about 0.1. National saving could also increase if the surpluses are used to fund individual accounts and such accounts add to private saving. But if the surpluses are dissipated, they will neither help to strengthen Social Security nor add to national saving.

The President listed three other principles to guide Social Security reform. One principle is to maintain universality and fairness. The current program provides benefits on a progressive basis, and ensuring progressivity is an important standard by which reform proposals should be judged. Another principle is to provide a benefit that people can count on--a secure base for retirement planning. I will come back to this principle of retirement income security when I discuss some prominent reform proposals. Finally, the President has said that we must preserve financial security for low-income and disabled beneficiaries, which highlights his commitment to preserving the disability and survivors' insurance aspects of the OASDI program.

The President's principles will provide a framework for Social Security reform, but they do not precisely determine its outcome. Even within this framework, the President and the Congress will face some difficult choices in the coming months. I would like to discuss some of the issues and tradeoffs that will be important. Of course, I am not going to endorse specific reform ideas at this time, because the President has made it clear that he does not want to prejudge the public debate or hinder bipartisan consideration of alternative proposals.

One overriding question is whether to stick with the pure defined-benefit structure of Social Security or to move at least partly in the direction of a defined-contribution structure with individual accounts. Some people argue that individual accounts could earn a higher rate of return than the Trust Fund can, pointing to the difference between returns on average private portfolios and projected rates of return on Social Security. But this comparison is misleading in at least two crucial ways.

First, most of today's payroll tax goes to current beneficiaries. If current workers put their payroll tax contributions into individual accounts for their own retirements, we would need to find some other way to pay current benefits. Put differently, the Social Security system paid benefits to some past generations of retirees that greatly exceeded their contributions. This policy created an implicit debt that must be paid somehow by current and future generations, and a Social Security system which does that will necessarily generate a lower return than a new system that does not have that accumulated burden. This is often referred to as the "transition problem." Surpluses in the unified budget--used either to augment the Trust Fund or to fund individual accounts--could at least partially mitigate the transition problem, by bringing additional funds into the Social Security system.

The second way that comparing rates of return between average private portfolios and Social Security is misleading is that most private portfolios invest in riskier assets than does the Social Security Trust Fund. These riskier assets--equities in particular--have paid higher returns than government bonds over nearly all long periods of time in the United States during the past century. Between, for example, 1959 and 1996, the S&P 500 returned an average 3.84 percent more per year than bonds in the Trust Fund. There is no guarantee, however, that the equity premium in the future will match its historical average. And equity investments involve substantial risk over shorter time periods. For example, on three occasions during the past 70 years, the S&P 500 index has declined more than 35 percent over two years, while Japan's Nikkei index has fallen over 60 percent since 1989. Moreover, some analysts have questioned whether investing Social Security funds in equities--through either the Trust Fund or individual accounts--would have positive effects on saving or rates of return for the nation as a whole. If such investments merely represented a swap of bonds for equities, there would be a corresponding swap of equities for bonds in private portfolios. If the total supplies of equities and bonds were unchanged, this exchange would raise the return earned on Social Security contributions but reduce the return earned on people's other retirement savings.

Of course, knowledgeable proponents of individual accounts understand these points and favor establishing such accounts for other reasons. Some supporters of individual accounts believe that national saving can be increased more effectively by moving funds out of the government and into private hands. They doubt that the government has the will to renounce the use of growing annual surpluses in the Social Security system. Some also argue that for many Americans without private retirement accounts, individual accounts established by the government could, through a demonstration effect, stimulate additional private saving. However, under current budget projections, individual accounts could not be funded out of the surplus forever, so a permanent commitment to their funding could set the stage for future fiscal deficits.

Many supporters of individual accounts believe that it is important to allow individuals to choose the portfolio allocation of their Social Security contributions. One justification that is offered for this view is that people should be able to decide for themselves how much risk they want to bear. However, at the same time, some supporters of individual accounts want the government to restrict people's investment options to reduce their risk, or they want the government to guarantee some minimum level of benefits while allowing scope for equity investments. Balancing flexibility against protection is a difficult problem.

Another justification that is given for allowing individuals to choose portfolio allocations is to minimize government involvement in financial markets. Supporters of an "equities in the Trust Fund" approach argue that it can achieve the same objective as individual accounts with lower administrative cost and greater sharing of the risks of market fluctuations both within and across generations. I think it is an open question, though, whether institutions could be designed that would allow the Trust Fund to purchase equities but still ensure that the government did not gain too much influence over the economy. Depending on the share of the Trust Fund invested in equities, the Social Security system could end up holding a substantial fraction of the stock market. Could the government avoid the pressure to make investment decisions for purposes other than maximizing the rate of return while minimizing risk? How would stock proxies be voted?

In the Federal Thrift Savings Plan, governance issues have been handled successfully by insulating investment managers from political calculations, narrowly defining their goals, and permitting investment only in index funds. However, the Thrift Savings Plan involves far less money than Social Security does, and it is essentially a collection of individual accounts managed by the government rather than a government-owned Trust Fund. In considering these governance issues, we may benefit from studying the experience of other countries engaged in similar reform efforts. For example, the Canadian Pension Plan will begin investing in private securities in early 1999. Equity purchases will be restricted to indexes, the fund will not be allowed to hold more than 30 percent of the voting shares of any firm, and investment decisions will be made by a board charged with a fiduciary responsibility to manage the fund in the best interests of the contributors and beneficiaries.

Critics of individual accounts raise a number of concerns beyond the ones I have already mentioned. Some opponents of these accounts worry about how to maintain Social Security as a progressive program that is fair to all Americans. For example, proposals to contribute a flat percentage of the payroll tax to individual accounts benefit high income workers the most. In contrast, proposals to use budget surpluses to make equal dollar contributions to individual accounts could be highly progressive.

Some opponents of individual accounts believe that the administrative costs of these accounts would be excessively high. The administrative cost of the current Social Security system is extremely low, representing less than one cent of every dollar of contributions. Investing part of the Trust Fund in equities would raise that cost only slightly, with the additional expenses probably amounting to less than a few basis points of each dollar invested. But the cost of directing the appropriate contributions to millions of individual accounts and managing the assets in those accounts could be much higher. In Chile and the UK, for example, the administrative costs of individual accounts may reduce retirement income by 20 percent or more. And in the United States, even passively managed index funds incur expenses that average around 60 basis points per year, according to a recent Department of Labor study. Moreover, analysts note that many proposals for individual accounts involve accounts that would be quite small, especially when they were first created, so that any fixed cost per account could absorb a significant share of the annual investment return for many people. The Federal Thrift Savings Plan incurs costs of about 10 basis points per year, but it allows for only a small range of investment choices, and all of its participants work for the same employer. Restricting investment options or services in individual accounts would reduce costs, but might disappoint people accustomed to better service for their private portfolios.

If individual accounts are introduced as part of the solution to Social Security's actuarial imbalance, the question will arise whether to require people to convert their account balances to annuities when they retire. One advantage of requiring annuitization is ensuring that individuals do not outlive their assets. Such a step may be especially important if withdrawals from individual accounts substitute for some part of traditional Social Security benefits, which automatically take the form of annuities. Requiring annuitization also minimizes the problem of adverse selection, which raises the price of private annuities today and reduces their use. But people may want to bequeathe some of their accumulated wealth, and requiring annuitization would restrict their ability to do so. Balancing these various objectives is another difficult problem.

In addition to proposals concerning individual accounts, uses of the budget surplus, and the investment policies of the Trust Fund, negotiations on Social Security reform may entail consideration of options regarding changes in the retirement age. As I mentioned earlier, and as you know, at the same time that people are living longer, they are retiring earlier. The increasing share of life spent in retirement--which is evident in other industrialized countries as well--is in part a natural reaction to higher income. But it may also be partly a reaction to public policies that unduly encourage retirement at specific ages. Social Security reform plans have been proposed that would phase in more rapidly the currently scheduled increase in the normal retirement age to 67, raise the retirement age beyond 67, or index the retirement age to life expectancy. Examining these proposals should be part of the public debate. But in the interest of fairness, we must look closely at the likely impact of any reform in this area on those Americans in physically demanding jobs or with disabilities.

I do not intend this discussion of difficult choices to imply that no solution can be found to the challenges posed by an aging society. Indeed, I am confident that a bipartisan effort to reform Social Security can succeed next year. But to achieve this goal, and to prepare the nation for the retirement of the baby boomers, we must continue to ask hard questions about alternative reform proposals. There is no magic bullet for Social Security reform, but careful analysis and thought can help guide us to the best decisions.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-SEP-1998 14:50:40.00

SUBJECT: new and improved table of EMF modeling results of Kyoto

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

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

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

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

CC: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
I received this afternoon the modeling results of the no trading cases for the EMF models, so I have modified the summary chart to include this case and to describe the change in permit prices as the pool of countries participating in trading expands.

Joe

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D93]MAIL49704606F.226 to ASCII,
The following is a HEX DUMP:

EMF-16: Modeling Exercises of Kyoto Protocol: Permit Prices

Model	No Trading (U.S.)	Annex I Trading	Percent Change from No Trading	Global Trading	Percent Change from No Trading
FUND	n/a	$17/ton	n/a	$11/ton	n/a
G-Cubed	$65/ton	$38/ton	42%	$13/ton	80%
RICE	$150/ton	$42/ton	72%	$13/ton	91%
SGM	$224/ton	$101/ton	55%	$27/ton	88%
MIT	$267/ton	$177/ton	63%	$36/ton	87%
AIM	$182/ton	$77/ton	58%	$45/ton	75%
MRT	$307/ton	$115/ton	63%	$50/ton	84%
CETA	$203/ton	$106/ton	48%	$61/ton	70%
MERGE3	$351/ton	$179/ton	49%	$139/ton	61%
Oxford	$489/ton	$267/ton	45%	$147/ton	70%
Average (SD)	$249/ton (124)	$112/ton (77)	52% (12)	$54/ton (50)	78% (0.10)

All permit prices are in 1997$.
Sinks are assumed to be zero.
Non-carbon dioxide greenhouse gases are assumed to have no offsetting impact on the magnitude of carbon dioxide emissions reductions necessary to comply with Kyoto targets.
In global trading, non-Annex B countries are assumed to have targets set at 2010 BAU.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-SEP-1998 21:19:35.00

SUBJECT: New Neal-Russia. Revised draft.

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

TO: Charles F. Stone (CN=Charles F. Stone/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:
Here is the revised draft. See you Saturday morning.
Nouriel
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D57]MAIL43105716Q.226 to ASCII,
The following is a HEX DUMP:

The New Deal and Russia's Current Economic Crisis

New Deal economic policies fall into the areas of macroeconomics (e.g., fiscal or monetary expansion), microeconomic policy (e.g., regulation) and social policy (e.g., social safety net). Some of these policies can be more usefully applied to Russia today than others.

The widespread notion that serious Keynesian fiscal or monetary expansion was undertaken in the 1930s is a myth. In fact Roosevelt originally campaigned against Hoover's budget deficit. Also, the budget deficits of the New Deal were small and financed with bonds, not with money. While the Depression led to budget deficits and fiscal measures to stimulate the economy, the increase in spending was modest and rose sharply only after the outbreak of WWII. Monetary policy in the Great Depression was contractionary, especially in the early years. Even during the New Deal monetary policy was not strongly expansionary. During the New Deal fiscal policy was only modestly expansionary and contributed little to economic recovery. The New Deal did not end the Great Depression: as late as 1939, six years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17%. This was an improvement over the 25% of 1933 but it was still a depression size figure.

Nevertheless, it is generally thought that expansionary macroeconomic policies would have been appropriate in the 1930s. The reason is that the large fall in output and employment were caused by a deficiency of demand which is why Keynes developed his theories.

The current Russian situation is quite different from the Great Depression. The Great Depression in the United States was marked by substantial unemployment, extensive idle industrial capacity, and falling prices: output fell by over 20, the unemployment rate rose above 25% and prices fell at an annual rate of 1.4%. Also, the United States had a balanced Federal budget through 1930 and no external debt. Instead, in Russia today there may be idle and unpaid workers, but there is some question as to whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a serious growing problem, and there is a large budget deficit and a large external debt. In Russia output is predicted to fall by 3% this year after increasing last year. While output fell sharply in the early 1990s as Russia began the transition to a market economy, the drop in output was mostly caused by the costly adjustment of the economy (e.g. away from unwanted products). By contrast, the sharp drop of output during the Great Depression was caused by a fall in aggregate demand in face of a large excess supply of goods.

The proposed increase in the money supply to pay arrears and give credits to banks and firms runs the risk of sending the country back down the road to hyperinflation. The CPI already rose 5.6% in the second week of September, following a 36% surge in the first. Thus, by the middle of the month the index stood 42% above its August level and 72% higher than a year ago. The objectives of helping the poor and the pensioners and paying back wages are very sensible. But one should note that monetary financing of deficits leads to inflation, which is a regressive tax. One can pay workers by printing rubles but in a few months the real value of their wages may fall because of inflation as their nominal wages grow more slowly than prices; one can end up hurting them rather than helping them. This is one of the reasons why high inflation is a regressive tax. Russia already experienced inflationary finance and hyperinflation in the early 1990s when Gerashchenko was the governor of the central bank; then, there was economic and political chaos. Now, there is again a serious risk of another dangerous hyperinflationary explosion. It is very hard to have a controlled one-shot monetary expansion when the deficit is large and structural and you cannot finance it by borrowing abroad or domestically, as is the case in Russia now. The risk of an uncontrollable hyperinflation is now serious.

Part of New Deal policies were about limiting the power of big business and finance, not bailing them out as Russia might be likely to do now. The populist aspects of the New Deal were about controlling the power of big business (banks and large corporations) through antitrust and other measures. In Russia, instead, inflationary finance and easy credits might be used to bail out powerful banks (who are not making productive loans but are engaged in speculation) and large monopolistic corporations that are often highly inefficient. Inflation also helps those who have debts that are wiped out by inflation and the rich who can shelter their wealth by buying inflation-proof assets or shipping their wealth abroad, while it hurts workers and the poor if their real incomes and wages are reduced by the debasement of the value of the currency.

Other aspects of the New Deal may provide more applicable lessons.

A. Social Policy

New institutions. Many of the institutions that formed the core of the postwar social safety net were created in the New Deal, including Social Security, Aid to Dependent Children, and Federally supervised Unemployment Insurance.

Labor laws. The New Deal also saw substantial strengthening of U.S. labor unions and the institution of collective bargaining to resolve labor disputes.

Social safety net. For Russia, creation of a safety net suitable to a market-oriented economy would seem to be legitimate objectives, and looking to the New Deal for inspiration is plausible.

Efficient tax system to finance social spending. However, during the New Deal such policies were not financed with inflationary monetary creation that would eventually reduce the real incomes and little wealth of workers. They were financed with a tax system able to collect more taxes on a broad basis. So, Russia needs to build a social safety net financed by higher taxes that are collected in a fair manner; to strengthen the tax collection administration to make sure that the well off pay a fair share to help the burden of the poor.

B. Microeconomic Policy

Substantial New Deal activity concerned intervention in individual markets and sectors.

New institutions to strengthen the rule of law. In some cases, government intervention involved useful, long-lasting reforms, such as the creation of the Securities and Exchange Commission and other measures designed to strengthen the legal and regulatory framework in ways that helped markets work better.

Regulation policies. In many cases, however, New Deal interventions have subsequently been viewed as inappropriate. These include: extending economic regulation of prices and entry to airlines and trucking; attempting to limit production in many industries in order to manage excess capacity and keep prices up.

Prudential supervision and regulation of financial institutions. The New Deal changed the Federal role in the supervision and regulation of banking, putting restrictions on banks with respect to lines of business and creating deposit insurance. Russia lacks many of the important institutions necessary to help financial markets work, so pursuing policies that emulate the New Deal with respect to strengthening bank and securities regulation and oversight would be very beneficial. Instead, bailing out financial institutions involved into speculative activities is bad policy.

No government planning of the economy. Russia also faces the temptation to return to substantial government control over what goods and services are produced and what prices are charged. This might be construed as emulating the New Deal, but not its more positive aspects. In the New Deal systematic price controls were avoided, competition policies were pursued and corporations were not nationalized.

Competition policies. Many New Deal policies were meant to foster competition and reduce monopolies, not strengthen them. New Deal policies tried to reduce the power of big business and increase market competition via antitrust regulation and strong pro-competition polices. In Russia, big and powerful monopolies dominate the economy and there is not enough competition in the market. Policies aiming at bailing out big and corrupt business and banks will increase their power at the expense of the average citizen, not reduce them. Such policies are regressive, not progressive.

Strengthen a market economy. The bottom line for Russia with respect to microeconomic policy is that it needs to strengthen the institutions that make markets work while resisting the temptation to interfere in the normal workings of markets.

In conclusion, Russia needs as in the New Deal to foster a mixed economy where the government plays its important role but where there is a strong market economy and an environment truly fostering solid economic development. Among the things needed for a better economic environment, as suggested by Larry Summers, are: "sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need, and it means the prevention of hidden anti-competitive ties between government and business interests." The New Deal did all that and was successful. Russia cannot do any less to be successful.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-SEP-1998 17:10:53.00

SUBJECT: New Deal and Russia

TO: Nouriel Roubini (CN=Nouriel Roubini/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:
Attached is the revised New Deal memo and a revised version of the cover
memo=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D62]MAIL44808426Z.226 to ASCII,
The following is a HEX DUMP:

The New Deal and Russia's Current Economic Crisis

Like the United States in the Great Depression, the Russian economy is currently facing a severe economic crisis with widespread distress. Prime Minister Primakov has compared his ideas for addressing Russia's problems to FDR's New Deal policies. Although there may be important lessons from the New Deal that could help in the formulation of appropriate policies for Russia today, it is important not to stretch the analogy too far. For example, the proposal to print money in Russia runs the risk of producing hyperinflation rather than stimulating economic growth.

The macroeconomic situation in Russia today differs in crucial ways from that in the United States during the Great Depression.

- The major macroeconomic problem facing the United States in the Great Depression was a sharp drop in aggregate demand. The economy was marked by substantial unemployment, extensive idle industrial capacity, and falling prices. Output fell about 30 percent between 1929 and 1933, the unemployment rate rose above 25 percent, and prices fell at an annual rate of 1.4 percent.

- The major problem facing Russia today is much more a breakdown in the supply side of the economy than a sharp drop in aggregate demand. Output fell sharply in the early 1990s as Russia began the transition to a market economy, but the drop in output was mostly caused by the costly adjustment from a planned to a market-oriented economy. Output is predicted to fall again this year by 3 percent, after increasing last year, and there are idle and unpaid workers today. But it is questionable whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a serious and growing problem.

Expansionary monetary and fiscal policies were more appropriate in the circumstances facing the United States during the Great Depression than in Russia today.

- The United States had a balanced budget through 1930 and no external debt. When output contracted sharply and tax revenues fell, the resulting budget deficit could be financed with bonds at very low interest rates. With substantial excess productive capacity and falling prices, expansionary policies work to raise output and lower unemployment without risk of inflationary consequences.

- Russia has a large budget deficit, substantial external debt and interest rates on ruble denominated government debt approaching 100% per annum. After unilaterally restructuring its domestic debt, the government does not have the capacity to finance budget deficits with debt and would be forced to print money. As discussed below, it

would then run the risk of serious hyperinflation.

Ironically, the widespread notion that serious Keynesian fiscal or monetary expansion was undertaken in the 1930s is a myth.

- Roosevelt originally campaigned against Hoover's budget deficit.

- The budget deficits of the New Deal were relatively modest, given how much output had contracted and how much stimulus was needed.

- Spending measures taken during the Great Depression were relatively modest and did not produce a strong recovery. As late as 1939, 6 years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17 percent. This was an improvement over the 25 percent of 1933 but it was still a Depression-size figure.

- It was not until World War II and its large increase in military spending that the economy recovered from the depressed economic conditions of the 1930s.

- Expansionary monetary and fiscal policies would both have been appropriate in the Great Depression, but to a large extent, neither was pursued.

The "one-shot" increase in the money supply proposed today in Russia in order to pay wage and pension arrears and give credits to banks and firms runs the risk of sending the economy back down the road to hyperinflation.

- Russia is already experiencing rising inflation. The CPI rose 5.6 percent in the second week of September, following a 36 percent surge in the first. Thus, by the middle of the month the index stood 42 percent above its August level and 72 percent higher than a year ago.

- The objectives of helping the poor and the pensioners and paying back wages are very sensible. But monetary financing of deficits leads to inflation, which is a regressive tax if wages do not keep up.

- Russia already experienced inflationary finance and hyperinflation in the early 1990s when Geraschenko was the Governor of the central bank. There was economic and political chaos.

- Persistent inflationary money creation, rather than a controlled, one-shot monetary expansion, is the likely outcome in Russia today because there is already a large, structural budget deficit which the government cannot finance by borrowing either at home or abroad.

FDR emphasized that he was seeking balance among competing interests, whereas Russia risks bailing out large business and financial interests.

- An important populist strain in the New Deal was limiting the power of large business and financial interests, especially large holding companies and Wall Street. Early in the New Deal, the National Recovery Act facilitated coordination among producers to set artificially high prices to stop deflation, which was bankrupting borrowers. By the late 1930s, however, a vigorous antitrust movement was underway.

- In Russia, inflationary finance and easy credits might be used to bail out powerful banks (who are not making productive loans but are engaged in speculation) and large monopolistic corporations that are often highly inefficient.

- In Russia, big and powerful monopolies dominate the economy and there is insufficient competition in many markets. Policies aimed at bailing out large and corrupt businesses and banks will increase their power at the expense of the average citizen, rather than reduce it. Such policies are regressive, not progressive.

The New Deal was neither a consistent nor a comprehensive plan. It was a hodge-podge of microeconomic policies affecting particular interests and sectors. Some now appear misguided, while others have had enduring value.

- Policies that have had lasting value tended to be those designed to strengthen the legal and regulatory framework in ways that helped markets work better (e.g. the creation of the Securities and Exchange Commission).

- The New Deal changed the Federal role in the supervision and regulation of banking, putting restrictions on banks with respect to lines of business and creating deposit insurance.

- Russia lacks many of the important institutions necessary to help financial markets work, so pursuing policies that emulate the New Deal with respect to strengthening bank and securities regulation and oversight would be very beneficial. In contrast, bailing out financial institutions involved in speculative activities constitutes bad public policy.

- New Deal policies that have received lower marks are those that involve direct intervention by government in the workings of the market. Examples include regulation of the trucking and airline industry and facilitating price-fixing cartels under the National Recovery Act.

- Russia also faces the temptation to return to substantial government control over what goods and services are produced and what prices are charged. This might be construed as emulating the New Deal, but not its more positive aspects.

- The bottom line for Russia, with respect to microeconomic policy is that it needs to strengthen the institutions that make markets work while resisting the temptation to interfere with the normal workings of the market.

Many of the institutions that form the core of the postwar social safety net were created in the New Deal. However, these programs were financed through the tax system.

- Federal social safety net programs created during the New Deal include Social Security, a Federal welfare program, and Federally supervised Unemployment Insurance. In addition, several large scale government programs, particularly the Civilian Conservation Corps and the Works Progress Administration, were launched to create jobs for the unemployed.

- New Deal safety net programs were not financed through inflationary monetary creation that might ultimately reduce workers' real incomes and erode the real value of their savings. Instead, they were financed with a tax system able to collect more taxes on a broad basis.

- For Russia, creation of a safety net suitable to a market-oriented economy is a legitimate objective, and looking to the New Deal for inspiration is appropriate. But Russia needs to build a social safety net financed by higher taxes that are collected in a fair manner. This requires strengthening the tax collection administration to insure that the well off bear a fair share of the burden of helping the poor.

- Most safety net programs introduced in the New Deal were modeled on existing, successful state programs and administered by a competent government bureaucracy. In Russia, the implementation of such programs would similarly require the existence of a bureaucracy able to manage and administer these complex, targeted programs.

- The New Deal also saw substantial strengthening of U.S. labor unions and the institution of collective bargaining to resolve labor disputes.

Russia needs, as did the United States in the New Deal, to foster a mixed economy where the government plays an important role as a complement to a strong market economy in an environment that truly fosters solid economic development.

- Deputy Treasury Secretary Summers has identified the things that are needed in Russia to produce an environment conducive to growth: "sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need, and

prevention of hidden anti-competitive ties between government and business interests."

Perhaps the greatest achievement of FDR and the New Deal was maintaining the viability of America's political and social institutions in a time of severe economic stress.

- Questions about whether specific policies were appropriate or consistent with one another were probably far less important than the leadership and inspiration that FDR provided. He conveyed the impression that he cared about the average American's plight and was working hard to make things better. In general, FDR tried to address and balance the concerns of all competing interests rather than single out any one for special treatment.

Lael, Carlos, Mark: Here is a draft of the memo we intend to send to State and the others later today.

To:
Madeleine Albright
Strobe Talbott
Steven Sestanovich
Sandy Berger
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton

Mark Medish
Nancy Lee

From: Janet Yellen

Re: Russia and the New Deal

At the request of State, NSC and NEC, we have prepared a memo on the New Deal and its applicability (or non-applicability) to the current situation in Russia. We understand that it might be useful as background for a meeting of Secretary Albright with her Russian counterpart on Monday.

We will continue to work on this topic in the coming week. But it would help us to know it what direction it might be most useful for an extended version of the memo to go. More on the New Deal? More on the current situation in Russia? Should we be looking for ways to try to make the analogy work in a positive way, even if this seems difficult?

Comments and questions can be referred either to me, to Jeff Frankel at 395-5046, or to Chad Stone at 395-5086 or Nouriel Roubini at 395-3310.

Madeleine Albright
Strobe Talbot
Steven Sestanovich
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton
Mark Medish
Nancy Lee

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-SEP-1998 11:06:19.00

SUBJECT: draft of cover letter to send out on New Deal

TO: STONE_CF (STONE_CF @ A1 @ CD @ VAXGTWY [UNKNOWN]) (WHO)
READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/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:
Shall we meet at 11:10?
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D57]MAIL49614426H.226 to ASCII,
The following is a HEX DUMP:

Lael, Carlos, Mark: Here is a draft of the memo we intend to send to State and the others later today.

To:
Madelaine Albright
Strobe Talbot
Steven Sestanovich
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton

Mark Medish
Nancy Lee

From: Janet Yellen

Re: Russia and the New Deal

At the request of State, NSC and NEC, we have prepared a memo on the New Deal and its applicability (or non-applicability) to the current situation in Russia. This version is just two pages; we understand that it might be useful as background for a meeting of Secretary Albright on Monday.

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Comments and questions can be referred either to me, to Jeff Frankel at 395-5046, or to Nouriel Roubini at 395-3310.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-SEP-1998 14:10:06.00

SUBJECT:

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

TO: Nouriel Roubini (CN=Nouriel Roubini/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:
It needs work at the end, but maybe the essential structure is here==================== ATTACHMENT 1
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ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D57]MAIL414854260.226 to ASCII,
The following is a HEX DUMP:

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Like the United States in the Great Depression, the Russian economy is currently facing a severe economic crisis with widespread distress. Prime Minister Primakov has compared his ideas for addressing Russia's problems to FDR's New Deal policies. Although there may be important lessons from the New Deal that could help in the formulation of appropriate policies for Russia today, it is important not to stretch the analogy too far.

The macroeconomic situation in Russia today differs in crucial ways from that in the United States during the Great Depression.

- The major macroeconomic problem facing the United States in the Great Depression was a sharp drop in aggregate demand. The economy was marked by substantial unemployment, extensive idle industrial capacity, and falling prices. Output fell 30 percent between 1929 and 1933, the unemployment rate rose above 25 percent, and prices fell at an annual rate of 1.4 percent.

- The major problem facing Russia today is much more a breakdown in the supply side of the economy than a sharp drop in aggregate demand. Output fell sharply in the early 1990s as Russia began the transition to a market economy, but the drop in output was mostly caused by the costly adjustment from a planned to a market-oriented economy. Output is predicted to fall again this year by 3 percent, after increasing last year, and there are idle and unpaid workers today. But it is questionable whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a serious growing problem.

The United States was in much better shape to pursue expansionary monetary and fiscal policies during the Great Depression than Russia is today.

- The United States had a balanced budget through 1930 and no external debt. When output contracted sharply and tax revenues fell, the resulting budget deficit could be financed with bonds. With substantial excess productive capacity and falling prices, there was little danger that expansionary policies would produce inflation.

- Russia has a large budget deficit and substantial external debt. It does not have the capacity to finance budget deficits with debt and would be forced to print money. As discussed below, it would then run the risk of serious hyperinflation.

Ironically, the widespread notion that serious Keynesian fiscal or monetary expansion was undertaken in the 1930s is a myth.

- Roosevelt originally campaigned against Hoover's budget deficit.

- The budget deficits of the New Deal were relatively small, given how much output had contracted and how much stimulus was needed.

- Spending measures taken during the Great Depression were relatively modest and did not produce a strong recovery. As late as 1939, 6 years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17 percent. This was an improvement over the 25 percent of 1933 but it was still a Depression-size figure.

- It was not until World War II and its large increase in military spending that the economy recovered from the depressed economic conditions of the 1930s.

- Expansionary policies would have been appropriate in the Great Depression, but to a large extent they were not pursued.

The increase in the money supply proposed today in Russia in order to pay arrears and give credits to banks and firms runs the risk of sending the economy back down the road to hyperinflation.

- Russia is already experiencing rising inflation. The CPI rose 5.6 percent in the second week of September, following a 36 percent surge in the first. Thus, by the middle of the month the index stood 42 percent above its August level and 72 percent higher than a year ago.

- The objectives of helping the poor and the pensioners and paying back wages are very sensible. But monetary financing of deficits leads to inflation, which is a regressive tax if wages do not keep up.

- Russia already experienced inflationary finance and hyperinflation in the early 1990s when Gerashchenko was the governor of the central bank; then, there was economic and political chaos.

- It is very hard to have a controlled one-shot monetary expansion when the deficit is large and structural and you cannot finance it by borrowing abroad or domestically.

FDR emphasized that he was seeking balance among competing interests, whereas Russia risks bailing out large business and financial interests.

- An important populist strain in the New Deal was limiting the power of large business and financial interests, especially large holding companies and Wall Street. Early in the New Deal, the National Recovery Act facilitated coordination among producers to set prices, but by the late 1930s, a vigorous antitrust movement was underway.

- In Russia, inflationary finance and easy credits might be used to bail out powerful banks (who are not making productive loans but are engaged in speculation) and large monopolistic corporations that are often highly inefficient.

- In Russia, big and powerful monopolies dominate the economy and there is not enough competition in the market. Policies aiming at bailing out big and corrupt business and banks will increase their power at the expense of the average citizen, not reduce them. Such policies are regressive, not progressive.

The New Deal was not a consistent or comprehensive plan. It was a hodge-podge of microeconomic policies affecting particular interests and sectors. Some now appear misguided, while others have had enduring value.

- Policies that have had lasting value tended to those designed to strengthen the legal and regulatory framework in ways that helped markets work better (e.g. the creation of the Securities and Exchange Commission).

- The New Deal changed the Federal role in the supervision and regulation of banking, putting restrictions on banks with respect to lines of business and creating deposit insurance.

- Russia lacks many of the important institutions necessary to help financial markets work, so pursuing policies that emulate the New Deal with respect to strengthening bank and securities regulation and oversight would be very beneficial. Instead, bailing out financial institutions involved into speculative activities is bad policy.

- Polices that have received lower marks are those that involve direct intervention by government in the workings of the market. Examples include regulation of the trucking and airline industry and facilitating price-fixing cartels under the National Recovery Act.

- Russia also faces the temptation to return to substantial government control over what goods and services are produced and what prices are charged. This might be construed as emulating the New Deal, but not its more positive aspects.

Many of the institutions that formed the core of the postwar social safety net were created in the New Deal, including Social Security, a Federal welfare program, and Federally supervised Unemployment Insurance.

- Such policies were not financed with inflationary monetary creation that would eventually reduce the real incomes and little wealth of workers. They were financed with a tax system able to collect more taxes on a broad basis.

- For Russia, creation of a safety net suitable to a market-oriented economy would seem to be legitimate objectives, and looking to the New Deal for inspiration is plausible. Thus, Russia needs to build a social safety net financed by higher taxes that are collected in a fair manner; to strengthen the tax collection administration to make sure that the well off pay a fair share to help the burden of the poor.

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Russia needs as in the New Deal to foster a mixed economy where the government plays its important role but where there is a strong market economy and an environment truly fostering solid economic development.

- Deputy Treasury Secretary Summers has identified the things needed for a better economic environment, "sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need, and it means the prevention of hidden anti-competitive ties between government and business interests."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-SEP-1998 16:13:22.00

SUBJECT: New Deal memo

TO: Nouriel Roubini (CN=Nouriel Roubini/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:
Attached is the revised memo for a final read through. =================== ATTACHMENT 1
===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D29]MAIL46747426Z.226 to ASCII,
The following is a HEX DUMP:

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would then run the risk of serious hyperinflation.

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- The budget deficits of the New Deal were relatively small, given how much output had contracted and how much stimulus was needed.
- Spending measures taken during the Great Depression were relatively modest and did not produce a strong recovery. As late as 1939, 6 years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17 percent. This was an improvement over the 25 percent of 1933 but it was still a Depression-size figure.
- It was not until World War II and its large increase in military spending that the economy recovered from the depressed economic conditions of the 1930s.
- Expansionary monetary and fiscal policies would both have been appropriate in the Great Depression, but to a large extent, neither was pursued.

The "one-shot" increase in the money supply proposed today in Russia in order to pay wage and pension arrears and give credits to banks and firms runs the risk of sending the economy back down the road to hyperinflation.

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- The objectives of helping the poor and the pensioners and paying back wages are very sensible. But monetary financing of deficits leads to inflation, which is a regressive tax if wages do not keep up.
- Russia already experienced inflationary finance and hyperinflation in the early 1990s when Geraschenko was the Governor of the central bank; then, there was economic and political chaos.
- It is very hard to have a controlled, one-shot monetary expansion when the budget deficit is already large and structural and the government cannot finance it by borrowing either abroad or domestically.

FDR emphasized that he was seeking balance among competing interests, whereas Russia

risks bailing out large business and financial interests.

- An important populist strain in the New Deal was limiting the power of large business and financial interests, especially large holding companies and Wall Street. Early in the New Deal, the National Recovery Act facilitated coordination among producers to set artificially high prices to stop deflation, which was bankrupting borrowers. By the late 1930s, however, a vigorous antitrust movement was underway.

- In Russia, inflationary finance and easy credits might be used to bail out powerful banks (who are not making productive loans but are engaged in speculation) and large monopolistic corporations that are often highly inefficient.

- In Russia, big and powerful monopolies dominate the economy and there is insufficient competition in many markets. Policies aimed at bailing out large and corrupt businesses and banks will increase their power at the expense of the average citizen, rather than reduce it. Such policies are regressive, not progressive.

The New Deal was neither a consistent nor comprehensive plan. It was a hodge-podge of microeconomic policies affecting particular interests and sectors. Some now appear misguided, while others have had enduring value.

- Policies that have had lasting value tended to be those designed to strengthen the legal and regulatory framework in ways that helped markets work better (e.g. the creation of the Securities and Exchange Commission).

- The New Deal changed the Federal role in the supervision and regulation of banking, putting restrictions on banks with respect to lines of business and creating deposit insurance.

- Russia lacks many of the important institutions necessary to help financial markets work, so pursuing policies that emulate the New Deal with respect to strengthening bank and securities regulation and oversight would be very beneficial. In contrast, bailing out financial institutions involved in speculative activities constitutes bad public policy.

- New Deal polices that have received lower marks are those that involve direct intervention by government in the workings of the market. Examples include regulation of the trucking and airline industry and facilitating price-fixing cartels under the National Recovery Act.

- Russia also faces the temptation to return to substantial government control over what goods and services are produced and what prices are charged. This might be construed as emulating the New Deal, but not its more positive aspects.

Many of the institutions that formed the core of the postwar social safety net were created in the New Deal, including Social Security, a Federal welfare program, and Federally

supervised Unemployment Insurance.

- New Deal safety net programs were not financed through inflationary monetary creation that ultimately reduces workers' real incomes and erodes the real value of their savings. Instead, they were financed with a tax system able to collect more taxes on a broad basis.

- For Russia, creation of a safety net suitable to a market-oriented economy is a legitimate objective, and looking to the New Deal for inspiration is appropriate. But Russia needs to build a social safety net financed by higher taxes that are collected in a fair manner. This requires strengthening the tax collection administration to insure that the well off bear a fair share of the burden of helping the poor.

- Most safety net programs introduced in the New Deal were modeled on existing, successful state programs and administered by a competent government bureaucracy. In Russia, the implementation of such programs would similarly require the existence of a bureaucracy able to manage and administer these complex, targeted programs.

- Several large scale government programs, particularly the Civilian Conservation Corps and the Works Progress Administration, were launched to create jobs for the unemployed.

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Russia needs, as did the United States in the New Deal, to foster a mixed economy where the government plays an important role as a complement to a strong market economy in an environment that truly fosters solid economic development.

- Deputy Treasury Secretary Summers has identified the things that are needed in Russia to produce an environment conducive to growth: sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need; the prevention of hidden anti-competitive ties between government and business interests.

Perhaps the greatest achievement of FDR and the New Dean was maintaining the viability of America's political and social institutions in a time of severe economic stress.

- Questions about whether specific policies were appropriate or consistent with one another were probably far less important than the leadership and inspiration that FDR provided. He conveyed the impression that he cared about the average American's plight and was working hard to make things better. In general, FDR tried to address and balance the concerns of all competing interests rather than single out any one for special treatment.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-SEP-1998 17:19:15.00

SUBJECT: Re: New Deal and Russia

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

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

TEXT:
I think it is time to send the memo out. (I have already e-mailed to lael
and Carlos.) Nouriel, do you want to help me fill in the rest of the fax
numbers:

Fax numbers:

Carole Landis, office of Madeleine Albright
647-5620 Tel
647-8448
Strobe Talbot
Steven Sestanovich
Gene Sperling
Lael Brainard 456-1605 Tel
456-5353
Carlos Pascual Tel
456-9169
Leon Fuerth
David Lipton
Mark Medish 622-0658 (w) and 237-5824 (h)
Nancy Lee 546-9329 (h)
Andy Bocol 622-2308 (w)

Janet L. Yellen
09/19/98 05:11:49 PM
Record Type: Record

To: Jeffrey A. Frankel/CEA/EOP, Nouriel Roubini/CEA/EOP
cc:
Subject: New Deal and Russia

Attached is the revised New Deal memo and a revised version of the cover memo

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D72]MAIL40318426P.226 to ASCII,
The following is a HEX DUMP:

Lael, Carlos, Mark: Here is a draft of the memo we intend to send to State and the others later today.

To:
Madeleine Albright
Strobe Talbott
Steven Sestanovich
Sandy Berger
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton

Mark Medish
Nancy Lee

From: Janet Yellen

Re: Russia and the New Deal

At the request of State, NSC and NEC, we have prepared a memo on the New Deal and its applicability (or non-applicability) to the current situation in Russia. We understand that it might be useful as background for a meeting of Secretary Albright with her Russian counterpart on Monday.

We will continue to work on this topic in the coming week. But it would help us to know it what direction it might be most useful for an extended version of the memo to go. More on the New Deal? More on the current situation in Russia? Should we be looking for ways to try to make the analogy work in a positive way, even if this seems difficult?

Comments and questions can be referred either to me, to Jeff Frankel at 395-5046, or to Chad Stone at 395-5086 or Nouriel Roubini at 395-3310.

Madeleine Albright
Strobe Talbot
Steven Sestanovich
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton
Mark Medish
Nancy Lee

The New Deal and Russia's Current Economic Crisis

Like the United States in the Great Depression, the Russian economy is currently facing a severe economic crisis with widespread distress. Prime Minister Primakov has compared his ideas for addressing Russia's problems to FDR's New Deal policies. Although there may be important lessons from the New Deal that could help in the formulation of appropriate policies for Russia today, it is important not to stretch the analogy too far. For example, the proposal to print money in Russia runs the risk of producing hyperinflation rather than stimulating economic growth.

The macroeconomic situation in Russia today differs in crucial ways from that in the United States during the Great Depression.

- The major macroeconomic problem facing the United States in the Great Depression was a sharp drop in aggregate demand. The economy was marked by substantial unemployment, extensive idle industrial capacity, and falling prices. Output fell about 30 percent between 1929 and 1933, the unemployment rate rose above 25 percent, and prices fell at an annual rate of 1.4 percent.

- The major problem facing Russia today is much more a breakdown in the supply side of the economy than a sharp drop in aggregate demand. Output fell sharply in the early 1990s as Russia began the transition to a market economy, but the drop in output was mostly caused by the costly adjustment from a planned to a market-oriented economy. Output is predicted to fall again this year by 3 percent, after increasing last year, and there are idle and unpaid workers today. But it is questionable whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a serious and growing problem.

Expansionary monetary and fiscal policies were more appropriate in the circumstances facing the United States during the Great Depression than in Russia today.

- The United States had a balanced budget through 1930 and no external debt. When output contracted sharply and tax revenues fell, the resulting budget deficit could be financed with bonds at very low interest rates. With substantial excess productive capacity and falling prices, expansionary policies work to raise output and lower unemployment without risk of inflationary consequences.

- Russia has a large budget deficit, substantial external debt and interest rates on ruble denominated government debt approaching 100% per annum. After unilaterally restructuring its domestic debt, the government does not have the capacity to finance budget deficits with debt and would be forced to print money. As discussed below, it

would then run the risk of serious hyperinflation.

Ironically, the widespread notion that serious Keynesian fiscal or monetary expansion was undertaken in the 1930s is a myth.

- Roosevelt originally campaigned against Hoover's budget deficit.

- The budget deficits of the New Deal were relatively modest, given how much output had contracted and how much stimulus was needed.

- Spending measures taken during the Great Depression were relatively modest and did not produce a strong recovery. As late as 1939, 6 years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17 percent. This was an improvement over the 25 percent of 1933 but it was still a Depression-size figure.

- It was not until World War II and its large increase in military spending that the economy recovered from the depressed economic conditions of the 1930s.

- Expansionary monetary and fiscal policies would both have been appropriate in the Great Depression, but to a large extent, neither was pursued.

The "one-shot" increase in the money supply proposed today in Russia in order to pay wage and pension arrears and give credits to banks and firms runs the risk of sending the economy back down the road to hyperinflation.

- Russia is already experiencing rising inflation. The CPI rose 5.6 percent in the second week of September, following a 36 percent surge in the first. Thus, by the middle of the month the index stood 42 percent above its August level and 72 percent higher than a year ago.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-SEP-1998 13:58:19.00

SUBJECT: New Deal document

TO: STONE_CF (STONE_CF @ A1 @ CD @ VAXGTWY [UNKNOWN]) (WHO)
READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/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 am passing around Carlos Pasquale's written comments.

He says that he was hoping to get a document that could be presented to the Russians as a sort of "non-paper", and that this doesn't do it.
What he likes most is a list of components of the New Deal;
what he seems to like the least is the statement that what was good for the US in 1930s (demand expansion) is not good for Russia now ; he thinks the Russians will not understand the distinction, given that both episodes featured a fall in output. We need to explain that problems with the Russian system go a lot deeper than not producing a high enough quantity of output within a given structure. Micro vs. macro.

Based on what he said, I am not entirely optimistic that we can produce something he considers usable to give the Russians. But nevertheless (after clarifying that we had not thought we were writing directly for the Russians), I told him that we would take another crack at it, by Wednesday. They are in town all week, and Wednesday seemed good to him.

I think I ought also to get reactions from Sestanovich and Lael.

Janet, how do you want to proceed? Shall we meet around 5 to discuss?
JF

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-SEP-1998 18:11:18.00

SUBJECT: Next Steps on New Deal

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

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

TO: Rebecca M. Blank (CN=Rebecca M. Blank/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: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Just wanted to clarify next steps to build upon our meeting this afternoon. It seems we should (i) update the explicit facts in the memo to reflect best available data (including the U.S. deflation figures and Russian GDP contraction at minimum), and (ii) amass as comprehensive a list as possible of New Deal programs in case anyone is pulled into further discussions on the topic.

In addition, we could (iii) pull out some of the facts/assertions most distasteful to the Russian palate to produce a document for external purposes, and (iv) create an updated internal document which incorporates comments/criticisms as we receive them.

At this point, (i) and (ii) seem worthwhile. We also seem to have concluded that the pursuit of (iii) and (iv) would be of dubious merit at this point.

If someone will forward me an electronic copy of the memo, I will make the revisions entailed in (i) when I receive updated data from Treasury. Raymond and I will also begin compiling (ii) with the chapter Becky has obtained and other material we locate in the coming day(s).

Please let me know what else we can contribute to the process.
-Matt

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-SEP-1998 12:23:11.00

SUBJECT: Proposed Timetable for '99ERP

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

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

TO: Rebecca M. Blank (CN=Rebecca M. Blank/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:
Attached is a PROPOSED timetable for the '99 ERP. I would like to
distribute it at tomorrow's staff meeting. Please let me know if you have
any changes or suggestions.
Thanks.=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D71]MAIL44739636H.226 to ASCII,
The following is a HEX DUMP:

TIMETABLE FOR 1999 ERP

	Chapt2 (Macro)	Chapts 3&5 (Aging&Micro)	Chapters 4&5&6 (Labor&Farms&Intl)
1st DRAFT	Nov 16	Oct 9	Oct 16
Comments back from Chair/Members	Nov 20	Oct 16	Oct 23
2nd DRAFT	Dec 4	Oct 26	Nov 2
Comments back from Chair/Members	Dec 8	Nov 2	Nov 9
1st Interagency Clearance	Dec 14	Nov 20	Nov 20
Comments returned	Dec 18	Nov 30	Nov 30
2nd Interagency Clearance	X	Dec 11	Dec 11
Comments returned	X	Dec 18	Dec 18
Circulate around WH	Jan 11	Jan 11	Jan 11
Comments returned	Jan 15	Jan 15	Jan 15
TO GPO	WEEK of JAN 25-29		
Release Date	WEEK of FEB 8-12		

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-SEP-1998 08:07:21.00

SUBJECT: Re: New Deal and Russia

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

TEXT:
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 09/21/98
08:05 AM ---------------------------

Jeffrey A. Frankel
09/19/98 05:20:11 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP, Janet L. Yellen/CEA/EOP
cc:
bcc:
Subject: Re: New Deal and Russia

I think it is time to send the memo out. (I have already e-mailed to lael and Carlos.) Nouriel, do you want to help me fill in the rest of the fax numbers:

Fax numbers:

Carole Landis, office of Madeleine Albright
647-5620 Tel
647-8448
Strobe Talbot
Steven Sestanovich
Gene Sperling
Lael Brainard 456-1605 Tel
456-5353
Carlos Pascual Tel
456-9169
Leon Fuerth
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Mark Medish 622-0658 (w) and 237-5824 (h)
Nancy Lee 546-9329 (h)
Andy Bocol 622-2308 (w)

Janet L. Yellen
09/19/98 05:11:49 PM
Record Type: Record

To: Jeffrey A. Frankel/CEA/EOP, Nouriel Roubini/CEA/EOP
cc:
Subject: New Deal and Russia

Attached is the revised New Deal memo and a revised version of the cover memo

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D16]MAIL46241336.226 to ASCII,
The following is a HEX DUMP:

Lael, Carlos, Mark: Here is a draft of the memo we intend to send to State and the others later today.

To:
Madeleine Albright
Strobe Talbott
Steven Sestanovich
Sandy Berger
Gene Sperling
Lael Brainard
Carlos Pascual
Leon Fuerth
David Lipton

Mark Medish
Nancy Lee

From: Janet Yellen

Re: Russia and the New Deal

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Madeleine Albright
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Lael Brainard
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The New Deal and Russia's Current Economic Crisis

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The macroeconomic situation in Russia today differs in crucial ways from that in the United States during the Great Depression.

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- The major problem facing Russia today is much more a breakdown in the supply side of the economy than a sharp drop in aggregate demand. Output fell sharply in the early 1990s as Russia began the transition to a market economy, but the drop in output was mostly caused by the costly adjustment from a planned to a market-oriented economy. Output is predicted to fall again this year by 3 percent, after increasing last year, and there are idle and unpaid workers today. But it is questionable whether the productive capacity exists to put these workers back to work in the short run. Moreover, inflation is a serious and growing problem.

Expansionary monetary and fiscal policies were more appropriate in the circumstances facing the United States during the Great Depression than in Russia today.

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- The budget deficits of the New Deal were relatively modest, given how much output had contracted and how much stimulus was needed.
- Spending measures taken during the Great Depression were relatively modest and did not produce a strong recovery. As late as 1939, 6 years after Roosevelt's first inauguration, unemployment stood at the very high figure of 17 percent. This was an improvement over the 25 percent of 1933 but it was still a Depression-size figure.
- It was not until World War II and its large increase in military spending that the economy recovered from the depressed economic conditions of the 1930s.
- Expansionary monetary and fiscal policies would both have been appropriate in the Great Depression, but to a large extent, neither was pursued.

The "one-shot" increase in the money supply proposed today in Russia in order to pay wage and pension arrears and give credits to banks and firms runs the risk of sending the economy back down the road to hyperinflation.

- Russia is already experiencing rising inflation. The CPI rose 5.6 percent in the second week of September, following a 36 percent surge in the first. Thus, by the middle of the month the index stood 42 percent above its August level and 72 percent higher than a year ago.
- The objectives of helping the poor and the pensioners and paying back wages are very sensible. But monetary financing of deficits leads to inflation, which is a regressive tax if wages do not keep up.
- Russia already experienced inflationary finance and hyperinflation in the early 1990s when Geraschenko was the Governor of the central bank. There was economic and political chaos.
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Many of the institutions that form the core of the postwar social safety net were created in the New Deal. However, these programs were financed through the tax system.

- Federal social safety net programs created during the New Deal include Social Security, a Federal welfare program, and Federally supervised Unemployment Insurance. In addition, several large scale government programs, particularly the Civilian Conservation Corps and the Works Progress Administration, were launched to create jobs for the unemployed.

- New Deal safety net programs were not financed through inflationary monetary creation that might ultimately reduce workers' real incomes and erode the real value of their savings. Instead, they were financed with a tax system able to collect more taxes on a broad basis.

- For Russia, creation of a safety net suitable to a market-oriented economy is a legitimate objective, and looking to the New Deal for inspiration is appropriate. But Russia needs to build a social safety net financed by higher taxes that are collected in a fair manner. This requires strengthening the tax collection administration to insure that the well off bear a fair share of the burden of helping the poor.

- Most safety net programs introduced in the New Deal were modeled on existing, successful state programs and administered by a competent government bureaucracy. In Russia, the implementation of such programs would similarly require the existence of a bureaucracy able to manage and administer these complex, targeted programs.

- The New Deal also saw substantial strengthening of U.S. labor unions and the institution of collective bargaining to resolve labor disputes.

Russia needs, as did the United States in the New Deal, to foster a mixed economy where the government plays an important role as a complement to a strong market economy in an environment that truly fosters solid economic development.

- Deputy Treasury Secretary Summers has identified the things that are needed in Russia to produce an environment conducive to growth: "sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive private investment; securities markets that deter fraud and protect legitimate investor rights; social spending targeted to those really in need, and

prevention of hidden anti-competitive ties between government and business interests."

Perhaps the greatest achievement of FDR and the New Deal was maintaining the viability of America's political and social institutions in a time of severe economic stress.

- Questions about whether specific policies were appropriate or consistent with one another were probably far less important than the leadership and inspiration that FDR provided. He conveyed the impression that he cared about the average American's plight and was working hard to make things better. In general, FDR tried to address and balance the concerns of all competing interests rather than single out any one for special treatment.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Ryan D. Edwards to Steven N. Braun, Jeffrey A. Frankel, Douglas W. Elmendorf, and Janet L. Yellen at 12:04:51.00. Subject: OECD March 99 tentative schedule. (partial) (1 page)	09/21/1998	b(6)

COLLECTION:

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

FOLDER TITLE:

[09/16/1998 - 09/23/1998]

2013-0723-F
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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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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

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

CREATION DATE/TIME:21-SEP-1998 12:04:51.00

SUBJECT: OECD March 99 tentative schedule

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

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

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/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:
Hello everyone,

This morning I spoke with Richard Herd at the Secretariat, and the dates for the March meetings --- the WP-3 and the EDRC --- have apparently been set at March 9th and 10th respectively. He also said the BIS meeting was March 8th (I'm not sure whether anybody from CEA will attend).

Richard didn't know the date of the EPC meeting around March or April, and he said he'd get back to me.

On other fronts, Richard said the work on the EDRC report was proceeding smoothly, with much of the work on aging and structural policies nearing completion. He suggested that we think about scheduling the mission, so to speak, for the week in November before Thanksgiving. (I take that to mean the OECD people would like to visit us then.)

While talking with Jeremy Rudd, the idea came up that Doug's participation at the EDRC meeting, given the topic of aging, might be appropriate.

One last note: [redacted] Please advise if my services will be needed *during* the above OECD meetings, [redacted]

Please advise on any matters you wish to address.

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-SEP-1998 14:33:39.00

SUBJECT: AMT

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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: Douglas_W._Elmendorf@oa.eop.gov (Douglas_W._Elmendorf@oa.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
I discussed the Archer tax package with Len Burman, who succeeded Karl Scholz as the DAS for Tax Analysis at Treasury. Here is some interesting info about the AMT. (I also learned more about other provisions, if anyone is interested. Len said he is happy to come over and talk about tax issues sometime if Janet would like.)

	today	projected for 2008
number of taxpayers paying the AMT	1.6 m	13.6 m
number of taxpayers pushed into AMT because of last year's new credits (child credit, HOPE credit, etc.)	.6 m	3.6 m
number of taxpayers whom the IRS recommends should calculate whether they owe AMT	?	13 m

The AMT is essentially unindexed. Thus, it is rapidly moving well beyond the rich tax-shelter crowd for whom it was intended. (Because the new credits generally phase out before $100k of income, their impact on AMT payers gives an indication of where the AMT is now kicking in.) Thus, one could support AMT relief on both equity and simplicity grounds. But it does not generally involve low-income people (there is some rare twist under which the EITC and AMT can interact, but basically the EITC is phased out before the AMT is phased in).

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-SEP-1998 12:07:42.00

SUBJECT: Privatization and CVDs

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

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

TEXT:
Sorry I didn't get this out sooner when it seemed a bit more topical. I was caught on a few long calls after the staff meeting.

From our conversation this morning, the Dep't of Commerce/CVD issue seems to have landed squarely in the realm of politics rather than economics. I wanted to offer, however, a quick analysis of the economics from a corporate finance perspective -- especially since this perspective suggests that focusing only upon privatizations taking place at "fair market value" gives too much credit to the opposition.

From the point of view of modern (i.e. post M&M) capital structure theory, there is absolutely NO MERIT to the idea that a history of subsidies (in the form of capital or production grants) is relevant to a firm's current pricing decisions. Interestingly, this is INDEPENDENT of the issue of whether or not the assets of the firm were purchased at "fair" market value when it was privatized.

Underpricing in privatization, if it occurs, clearly represents a transfer of wealth from the seller (the government) to the new private owners. Even in British privatizations, such underpricing has been the rule rather than the exception (British Telecom and Jaguar, to name just two, were practically given away to garner political support for the privatization program). This, however, represents a one-shot "stock" transfer to new shareholders rather than a continuous "flow" tied to production (and hence, pricing) decisions. So, even in the polar case of firms which are freely given to private investors, these new investors would not wish to sell products at artificially low prices. This would squander the wealth transfer they were granted. Instead, they would desire to maximize the value of the assets they were given, and they would do so in exactly the same manner as owners who paid full market value.

From a slightly different (and perhaps less persuasive) angle, all modern approaches to capital budgeting attach a cost of capital to potential projects based solely on their risk characteristics. Thus, whether the assets in question are financed privately or publicly, with debt or equity simply doesn't matter.

Finally, from the "roll-up-your-sleeves" financial accounting point of view, what seems most concretely relevant to CVDs are direct line items on production P&Ls. Subsidies, after all, have to represent reduced costs that can be identified as artificially low numbers somewhere on an income statement. Here again, having received subsidized assets from the government in the past has no bearing on current line items. Capital structure comes into play in income statements, if at all, only in the form of interest expense. So, the only connection that can be drawn between past privatization (at less than market price) or receipt of subsidized assets and current product market underpricing would have to been drawn through reduced interest expense. The argument would essentially be that interest expense would be higher if corporate debt (rather than government subsidies) had financed the full value of the corporation's assets. In classic reductio ad absurdum manner, though, all exports from countries in which interest is not tax deductible (i.e. not reported as an expense) would then have to be CVD'd as would all exports from 100% equity-financed firms. Clearly this makes no sense.

Anyway, that's a longer two cents' worth than I originally intended. Suffice it to say that economically, privatization is a NON-ISSUE with regard to CVDs. If you would like me to develop any of these thoughts further, I would be happy to.

-Matt

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Douglas_W._Elmendorf@oa.eop.gov (Douglas_W._Elmendorf@oa.eop.gov [UNKNOWN])

CREATION DATE/TIME:22-SEP-1998 14:34:20.00

SUBJECT: AMT

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

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

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

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

TEXT:
I discussed the Archer tax package with Len Burman, who succeeded Karl Scholz as the DAS for Tax Analysis at Treasury. Here is some interesting info about the AMT. (I also learned more about other provisions, if anyone is interested. Len said he is happy to come over and talk about tax issues sometime if Janet would like.)

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-SEP-1998 14:22:11.00

SUBJECT: AMT

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

CC: Douglas_W._Elmendorf@oa.eop.gov (Douglas_W._Elmendorf@oa.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
From the Joint Tax Committee:

Distribution of AMT taxpayers under present
law 1998 2008
(income categories in nominal terms)

# of returns with income:
less than $30k
1,000 9,000
between $30 and 50k
23,000 405,000
between $50 and
100k 165,000 4,056,000
over
$100k 658,000 4,353,000

AMT taxpayers as percent of all taxpayers with income:
less than $30k
0 0
between $30 and 50k
0.1 1.4

Some moderately low income people now fall under the AMT, and a rising number will over time. But most of the growth in the number of AMT taxpayers is in the upper middle income class (more than 20% of people with income over $75k in 2008 will pay the AMT).

The cost of removing the low income folks from this group must be a small fraction of the total cost of returning the AMT to its original purpose. Thus, this is really not an issue for the poor, but for fairness and complexity further up the income distribution.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-SEP-1998 09:38:40.00

SUBJECT: OECD Roundtable: Sust. Develop., Sept 27-28 1998

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

TEXT:
Hi Janet,

John Weeks has sent us a fax with the "Issues of Discussion" and "Terms of Reference" materials for the September 27-28 roundtable you're to attend. There is a third document available on OLIS that he believes is on the docket. I'll go ahead and retrieve that, under the assumption that you don't already have these materials.

Would you like me to prepare these (and any other documents) as briefing materials? The meeting is fast approaching! :)

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Douglas_W._Elmendorf@oa.eop.gov (Douglas_W._Elmendorf@oa.eop.gov [UNKNOWN])

CREATION DATE/TIME:23-SEP-1998 14:23:54.00

SUBJECT: AMT

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

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

TEXT:
From the Joint Tax Committee:

Distribution of AMT taxpayers under present law (income categories in nominal terms)	1998	2008
# of returns with income:		
less than $30k	1,000	9,000
between $30 and 50k	23,000	405,000
between $50 and 100k	165,000	4,056,000
over $100k	658,000	4,353,000
AMT taxpayers as percent of all taxpayers with income:		
less than $30k	0	0
between $30 and 50k	0.1	1.4

Some moderately low income people now fall under the AMT, and a rising number will over time. But most of the growth in the number of AMT taxpayers is in the upper middle income class (more than 20% of people with income over $75k in 2008 will pay the AMT).

The cost of removing the low income folks from this group must be a small fraction of the total cost of returning the AMT to its original purpose. Thus, this is really not an issue for the poor, but for fairness and complexity further up the income distribution.