Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Alice H. Williams at 15:27:35.00. Subject: Letter for Ted's scrapbook. (2 pages)	01/19/1999	Personal Misfile
002. email	Nouriel Roubini to Jeffrey A. Frankel and Janet L. Yellen at 18:59:21.00. Subject: Medley Alert: Brazil: Plan C in the Works. (10 pages)	01/21/1999	P4/b(4)

COLLECTION:

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

FOLDER TITLE:

[01/15/1999 - 01/21/1999]

2013-0723-F
ab1291

RESTRICTION CODES

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

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

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

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

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-JAN-1999 14:42:56.00

SUBJECT: Re: ERP Cover

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

TEXT:
We have decided to go with color 200C, which is a coated (glossy) cranberry. You had a sample made up of this and I would like to return a copy of it to you, just so that you know exactly what we have in mind, to make certain that I am giving you the proper number, and to eliminate any chance for miscommunication.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Howard A. Shelanski (CN=Howard A. Shelanski/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JAN-1999 11:45:56.00

SUBJECT: Mergers and SOTU

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

TEXT:
Janet:

I saw a draft paragraph last week on mergers that was supposed to go in the President's SOTU address. There was a problem with that paragraph and it was at least mostly fixed from the last I saw. But I think it is important to keep tabs on this in case there is some reversion. The original problem was a reference to the acceptability of mergers that increase competition, when that is not the standard for antitrust review at all. Are you going to see speech drafts? If so, you might want to keep a look out for the merger issue.

Thanks,

Howard.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-JAN-1999 08:33:59.00

SUBJECT: tier II meeting

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

TEXT:
Janet: I heard there is to be a meeting this afternoon on EPA's Tier II rules regulating vehicle emissions. There is great interest in the rule, not only because the rule has potentially large costs, but also because of its impacts on carbon emissions, the fuel efficient tax credit proposal and potential use of diesel. EPA is supposed to make its decision on this rule within the next few weeks. This meeting is probably the best chance to have input into these rules. I would be happy to give you some ba ckground on the issues. Steve

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-JAN-1999 14:44:59.00

SUBJECT: Re: Mergers and SOTU

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

TEXT:
Howard, I will not be involved in reviewing the SOTU. I suggest that you send a note to Jon Orszag and mention this to him so that it is called to Gene's attention.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-JAN-1999 14:05:31.00

SUBJECT: CBO budget projections

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

TEXT:
=================== ATTACHMENT 1 ===================
ILLEGAL or CORRUPT buffer found in record

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Howard A. Shelanski (CN=Howard A. Shelanski/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-JAN-1999 16:15:56.00

SUBJECT: new ch.5 intro

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 shorter, hopefully clearer, possible intro.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D87]MAIL42287181Y.036 to ASCII,
The following is a HEX DUMP:

INTRODUCTION

Because development and adoption of new technology is essential to the U.S. economy's long-run performance, regulation that interferes with such innovation will be costly. This chapter will discuss how, in the areas of competition policy, environmental regulation, and electric power restructuring, the Administration has worked to ensure that regulation not only does not interfere with innovation, but that it fosters and adapts to beneficial technological change.

Historically, the United States has regulated both general economic conduct as well as specific effects of that conduct. Antitrust laws, for example, promote competition and prohibit anticompetitive actions that interfere with market performance. Industry-specific economic regulation traditionally constrained the exercise of market power by "natural monopolies" like telephone companies and electric utilities. Environmental regulations, in contrast, have targeted health and ecological side effects of economic activity.

While regulation, when wisely applied, can achieve desirable outcomes that unconstrained commercial activity would not produce, real productivity gains over time depend on innovation; on the steady flow of new ideas, products, and processes. [CITE BROAD PRODUCTIVITY STAT -- SOLOW] Since 1980, the share of manufacturing output by industries defined as "high technology" -- aerospace, telecommunications, biotechnology and computers -- has increased more than 50%. Indeed, high-tech products have become an increasing part of everyday life for American consumers. For example, in the past 6 years use of Internet services in the United States has expanded from a few specialists to tens of millions of citizens.

Advances that improve products and cut costs benefit producers and consumers in all sectors of the economy. To that end, the United States has strengthened its position as the world's leading performer of R&D. The number of patents granted in the United States surpassed 100,000 for the first time in 1994 and grew to more than 140,000 in 1998. Given the economic importance of innovation, public policy yields increased benefits by extending its perspective beyond the immediate goals of particular regulatory programs and taking into account the effects on development and adoption of new technology.

This Chapter will address the interaction between regulation and innovation in the United States. The first section will discuss how U.S. antitrust policy, in addition to its conventional focus on the price and output benefits of competition, has incorporated consideration of the long-run benefits of innovation. The second section will then examine how alternative ways of implementing environmental regulation affect innovation and diffusion of new technology. Finally, the last section presents electricity restructuring as an illustration of how technological change affects the desired form of regulation and how regulatory changes affect the pace and direction of new developments.

BOX: ***Government Support of R&D***

The United States government supports innovative activity in both direct and indirect ways. Data from 1997 show that U.S. government agencies together provide about 30 percent of all funds spent on R&D in the United States. The government's share of funds for "basic research" (research that advances scientific knowledge but has no immediate commercial objectives) is much higher, however -- about 57 percent. The National Institutes of Health, for example, are a principal source of funding for biomedical research, granting $____ million dollars to scientists nationwide in 1998 and dedicating substantial additional resources to the education of scientists and engineers. Specific programs provide resources for such projects as AIDS/HIV treatment, cancer research, and the Human Genome Project. The U.S. government has also taken a direct role in research and development through the National Science Foundation and other agencies, such as the Department of Energy which manages the large complex of federal laboratories. Federally funded research has been responsible for major developments in space technology, defense systems, energy, medicine, and agriculture, to list just a sample. Federal agencies face the continuous challenge of matching their missions to the technological needs of an evolving world.

Industry provides most of the funding for R&D in the U.S. -- about two thirds according to the most recent data. Indeed, the proportion of total R&D funding provided by industry has grown steadily in the past decade. The Research and Experimentation Tax Credit, which allows firms to reduce their tax obligations by 20% of qualifying research and development expenditures, was recently extended until June 1999. The U.S. government also supports basic research that underlies many applied advances in private industry and engages in partnerships with institutions such as universities to share the risk of long-term R&D efforts that have the potential to create widespread benefits.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-JAN-1999 09:55:18.00

SUBJECT: The Age of Big ERPs is Not Over

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

TEXT:
Janet,

You had asked me to do an estimate of the total length of the Report. My best estimate is that the Report will exceed 300 pages, and it could well be over 330. That would make the 99 ERP the second-longest ever (the 1993 Report was 340 pages; the current second-longest was the 1997 Report at 292 pages).

The count includes all chapters plus the President's Message and the Activities section, but not the statistical tables. It is based on words-per-page averages of 425 (which yields an estimate of 332 pages) and 450 (which yields 316); text charts and tables are taken into account.

Chapter 2 is the longest chapter at 54 or 58 pages, then Chapter 6 (46 or 48), 5 (44 or 48), and 4 (42 or 44).

This is certainly a higher page count than I would have guessed.

Mike

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Howard A. Shelanski (CN=Howard A. Shelanski/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-JAN-1999 17:46:56.00

SUBJECT: revised, new ch. 5 intro.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D89]MAIL403852818.036 to ASCII,
The following is a HEX DUMP:

INTRODUCTION

Because development and adoption of new technology is essential to the U.S. economy's long-run performance, regulation that interferes with such innovation will be costly. This chapter will discuss how, in the areas of competition policy, environmental regulation, and electric power restructuring, the Administration has worked not only to ensure that regulation does not interfere with innovation, but that it fosters and adapts to beneficial technological change.

Appropriately designed regulation can achieve desirable outcomes that unconstrained commercial activity would not produce. Historically, regulation in the United States has been selectively applied both to general economic conduct and to specific effects of that conduct. Antitrust laws, for example, promote competition and prohibit anticompetitive actions that interfere with market performance. Industry-specific economic regulation traditionally constrained the exercise of market power by "natural monopolies" like telephone companies and electric utilities. Environmental regulations, in contrast, have targeted health and ecological side effects of economic activity.

While regulation, when wisely applied, can prevent economic harms and protect economic benefits, real productivity gains over time depend on innovation; on the steady flow of new ideas, products, and processes. [CITE BROAD PRODUCTIVITY STAT -- SOLOW] Innovation boosts all sectors of the economy and is an important activity for agriculture just as it is for semiconductors. Particularly dramatic examples of growth through innovation are the industries defined as "high technology" -- aerospace, telecommunications, biotechnology and computers -- whose aggregate share of manufacturing ouput has increased more than 50% since 1980. Indeed, high-tech products have become an increasing part of everyday life for American consumers. The spread of Internet use in the past 6 years from a few specialists to tens of millions of Americans is one notable illustration. But it is through innovative effort economy-wide that the United States has succeeded in strengthening its position as the world's leading performer of R&D. As just one measure, the number of patents granted in the United States surpassed 100,000 for the first time in 1994 and grew to more than 140,000 in 1998.

Given the economic importance of innovation, public policy yields increased benefits by extending its perspective beyond the immediate goals of particular regulatory programs and taking into account the effects on development and adoption of new technology. This Chapter will first address how U.S. antitrust policy, in addition to its conventional focus on the price and output benefits of competition, has incorporated consideration of the long-run benefits of innovation. The second section will then examine how alternative ways of implementing environmental regulation affect innovation and diffusion of new technology. Finally, the last section presents electricity restructuring as an illustration of how technological change affects the desired form of regulation and how regulatory changes affect the pace and direction of new developments.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 14:03:11.00

SUBJECT: NPR

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

TEXT:
Hi Janet,

FYI: National Public Radio is broadcasting (has broadcast?) a story that basically covers all the points you mentioned this morning with regards to Social Security and the surplus. :)

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 18:48:22.00

SUBJECT: Re: new title for Chapter 6

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

CC: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
I do not really think we can get away with the implicit association of capital flows and financial crises, that is anyhow not the point of the chapter. I would rather stick with the original title; it may be boring but the chapter is not.
NR

Janet L. Yellen
01/19/99 06:35:30 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Jeffrey A. Frankel/CEA/EOP, James M. Treadway/CEA/EOP, Jeffrey A. Frankel/CEA/EOP, James M. Treadway/CEA/EOP
Subject: Re: new title for Chapter 6

I could go for Capital Flows and Financial Crises in the Global Economy if we can get away with it. Otherwise, I would as soon stick with the original title.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 18:43:40.00

SUBJECT: Re: new title for Chapter 6

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

CC: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
I could go for Capital Flows and Financial Crises in the Global Economy if we can get away with it. Otherwise, I would as soon stick with the original title.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 09:41:49.00

SUBJECT: Draft of the SOTU talking points

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

TEXT:
Draft of the NEC/DPC talking points is attached below.
---------------------- Forwarded by Michele Jolin/CEA/EOP on 01/19/99
09:41 AM ---------------------------

Jonathan Orszag
01/19/99 09:00:20 AM
Record Type: Record

To: Michele Jolin/CEA/EOP
cc:
Subject: Most Recent

---------------------- Forwarded by Jonathan Orszag/OPD/EOP on 01/19/99
10:01 AM ---------------------------

Laura Emmett
01/18/99 09:15:52 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Most Recent

Still waiting to finalize NSC stuff & we are adding a hate crimes & a employment non-discrimination act.

Message Sent
To:____
Sara M. Latham/WHO/EOP
Ruby Shamir/WHO/EOP
Melissa G. Green/OPD/EOP
Jonathan Orszag/OPD/EOP
Paul J. Weinstein Jr./OPD/EOP

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D13]MAIL45442881Y.036 to ASCII,
The following is a HEX DUMP:

21ST CENTURY SCHOOLS

EDUCATION

Accountability for Results
In his State of the Union Address, President Clinton will announce a package of accountability measures designed to hold students, teachers, and schools to high standards, and to ensure that school districts and states provide students with a high quality education. These proposals will help to lift student achievement in every public school and close the opportunity gap by giving special attention to disadvantaged students in low-performing schools.

The President's plan marks a sea change in national education policy -- for the first time holding states and school districts accountable for progress and rewarding them for results. While insisting that states and local governments retain primary responsibility for education, President Clinton will call on Congress to make sure federal dollars support what works and not what doesn't. His proposal emphasizes reforms that a growing number of states, cities, and schools across the nation are implementing and that are producing clear results.

Specifically, the President will announce that he will send Congress legislation to reauthorize the Elementary and Secondary Education Act to ensure that schools end social promotion; teachers are qualified to teach the subjects they are assigned; states turn around their lowest-performing schools; parents get annual report cards on school performance; and schools institute effective discipline policies.

Accountability for Results: End Social Promotion
The President's proposal will require states and school districts to end social promotion -- the practice of promoting students from grade to grade regardless of whether they have mastered the appropriate material and are academically prepared to do the work at the next level. Students who are promoted without regard to their achievement fall even further behind their classmates, and are more likely to lack basic skills upon graduating from high school.

To ensure that this requirement helps more students succeed, rather than simply increasing the number held back, states and school districts would have to show how they will help students meet promotion standards on time by (1) strengthening learning opportunities in the classroom with clear standards, small classes with well-prepared teachers, high quality professional development, and use of proven instructional practices; (2) identifying students who need help at the earliest possible moment; (3) providing extended learning time, including after-school and summer school for students who need extra help; and (4) developing an effective remedial plan, with intensive intervention, for students who still do not meet the standards, so they can get back on track in their schooling.

In 1996 President Clinton challenged every state and school district to adopt policies to end social promotion and require students to pass high school graduation exams. Twenty six states now have high school exit exams, and last year four states adopted policies to stop promoting unprepared students from grade to grade. A growing number of urban school districts, including Boston, Philadelphia, New York City, and Washington D.C. are adopting similar policies. In Chicago, which three years ago ended the practice of social promotion in a way that gives students who need it substantial extended learning time, citywide math and reading scores have gone up every year, with the largest gains among the most disadvantaged students. President Clinton's FY 2000 budget proposes to triple federal funding for after-school and summer school programs (from $200 million to $600 million) to help schools ending social promotion give students the extra help they need to succeed.

Accountability for Results: Turn Around Low Performing Schools
The President's proposal will require states to identify the schools with the lowest achievement levels and least improvement and take corrective action to turn them around. These corrective actions, based on a careful assessment of each school's needs, would include steps such as intensive teacher training, support to improve school discipline, and the implementation of proven approaches to school reform. If these actions do not result in improved student achievement within two years, the proposal would require states to take additional corrective actions, such as permitting students to attend other public schools; reconstituting the school, by fairly evaluating the staff and making staff changes as appropriate; or closing the school and reopening it as a charter school or with an entirely new staff. Nineteen states currently take similar actions to help improve low-performing schools, and experience demonstrates that when these interventions carefully implemented and accompanied by the resources to support change, schools improve and student achievement increases. The President's FY 2000 budget contains $200 million to help states begin taking these steps immediately.

Accountability for Results: Put Qualified Teachers in the Classroom
According to the National Commission on Teaching and America's Future, one of the most important factors in improving student achievement is the knowledge and skills teachers bring to the classroom. Yet every year, approximately 50,000 individuals teach on "emergency" certificates, which means they do not meet the standards the state has set for certification. In addition, numerous teachers teach subjects for which they lack adequate preparation, with fully one quarter of secondary school teachers lacking even a minor in their main teaching field. Students in schools with the highest concentrations of poverty -- those who often need the most help from the best teachers -- are most likely to be in classrooms with teachers who are not fully qualified: for example, in schools with the highest minority enrollment, students have a less than 50 percent chance of having a math or science teacher with a license and degree in the field.

The President's proposal will require states to adopt performance examinations for all new teachers, requiring them to demonstrate both subject-matter knowledge and teaching expertise. The proposal also will require states and school districts to phase out, over five years, the use of teachers with emergency certificates and the practice of assigning teachers to subjects for which they lack adequate preparation. To support these new teacher quality standards, the proposal will provide resources to help states strengthen teacher certification standards, test new teachers, provide training to current teachers, and give incentives to recruit more highly qualified teachers.

Accountability for Results: Issue School Report Cards
The President's proposal will require states to distribute to all parents annual report cards for each school and school district, as well as the state as a whole. The report cards will include information on student achievement, teacher professional qualifications, class size, school safety, and other factors that will help parents to judge the performance of the schools. Where appropriate, the report cards also will show the academic achievement of ethnic and racial subgroups, to ensure accountability for helping all students achieve. Thirty-six states currently publish or require local school districts to publish school report cards, and five additional states will begin the practice in the next two years. A recent report by Public Agenda, however, shows that only 31 percent of parents had seen these report cards. The President's proposal will help ensure that all parents in all states have access to the information they need to evaluate the quality of their schools and identify the areas in which improvement is needed.

Accountability for Results: Adopt Discipline Policies
Schools must be a place of learning. President Clinton already has challenged states, communities, and schools to take a number of steps to restore order and safety, such as adopting school uniforms, enforcing truancy laws, and imposing curfews. But in some schools, the breakdown of classroom discipline remains one of the biggest obstacles to learning and one of the greatest concerns for teachers, students, and parents

alike. The President's proposal will require states and school districts to adopt discipline policies to make sure students have the chance to learn and teachers have the chance to teach.

A National Effort to Reduce Class Size in the Early Grades

In his 1998 State of the Union address, President Clinton proposed to help local school schools hire 100,000 well-prepared teachers in order to reduce class size in grades 1-3 to a national average of 18, and make sure that every child gets a solid foundation in the basics. Studies show that smaller classes help teachers provide more personal attention to students and spend less time on discipline; this helps students to learn more and get a stronger foundation in the basic skills. In these studies, minority and disadvantaged students showed the largest achievement gains. Last year, Congress provided a down payment on the President's seven year, $12.4 billion proposal by appropriating $1.2 billion to help local communities hire nearly 30,000 teachers. Now Congress must finish the job by providing the remaining funds for local schools to hire 100,000 new teachers over seven years.

Modern School Buildings to Improve Student Learning

For students to learn, schools must be well-equipped and be able to accommodate smaller class sizes. In 1998, the American Society of Civil Engineers said that school buildings represent the nation's most pressing infrastructure need. To address this critical need, President Clinton is proposing federal tax credits to pay the interest on bonds to build and renovate public schools. Half of the bond authority will be allocated to the 100 school districts with the largest number of low-income children, and the other half will be allocated to the states.

Recruiting Outstanding New Teachers for Our Nation's Public Schools

With more than 2 million teachers to be hired in the next ten years to accommodate record student enrollments and an aging teaching force, the nation must not only recruit an adequate *number* of teachers, but ensure a *quality* teaching force through effective teacher recruitment and preparation. The President's budget will contain a series of new initiatives and funding increases to help recruit well prepared individuals to teach where they are needed the most, in high poverty urban and rural communities. In particular, the President's FY 2000 budget will increase funding for his teacher recruitment effort enacted in last year's Higher Education Act — to $35 million from $7.5 million — to recruit 7,000 outstanding new teachers into high need public schools by giving them scholarships in exchange for a commitment to teach. The President will announce other initiatives to improve teacher quality at an event later in the week.

21ST CENTURY SUPPORT FOR AMERICAN FAMILIES

LABOR

Minimum Wage Increase

The President called on Congress to pass an increase in the minimum wage. Despite the strongest economy in a generation, there are still millions of workers trying to raise a family and struggling to make ends meet. The President believes that parents who works hard and play by the rules should not have to raise their children in poverty. That is why, in 1993, he expanded the Earned Income Tax Credit (EITC) and, in 1996, fought for and won a minimum wage increase. The President's proposal would increase the minimum wage from $5.15 to $6.15 over two years -- through a 50-cent increase on September 1, 1999 and a 50-cent increase on September 1, 2000 -- helping to restore the real value of the minimum wage to what it was when President Reagan took office in 1981. This increase will help ensure that -- as costs continue to increase -- parents who work hard and play by the rules can bring up their children out of poverty. For someone who works full-time, this minimum wage increase will mean an additional $2,000 per year. According to data from the Bureau of Labor Statistics, about 12 million hourly paid workers would benefit directly from this pay raise.

Ensuring Equal Pay

According to the Department of Labor, the average woman who works full-time earns just 74 cents for each dollar that an average man earns. For women of color, the gap is even wider. This gap is, in part, attributable to differing levels of experience, education, and skill. However, even after accounting for these factors, a significant pay gap still remains between men and women in similar jobs. Recognizing this wage disparity, the President is proposing a $14 million equal pay initiative for the Equal Employment Opportunity Commission (EEOC) and the Department of Labor. This funding would allow the EEOC to conduct more outreach to businesses and employees, provide technical assistance, improve training for EEOC employees to better identify wage discrimination issues, and launch a public service announcement campaign to highlight the wage gap. The Department of Labor will continue monitoring pay equity to reduce occupational segregation; provide enhanced technical assistance through the Internet such as providing descriptions of industry best practices; increase outreach and education; and provide a focused effort on women in non-traditional jobs by identifying best practices and assisting contractors in recruiting and developing qualified individuals in non-traditional occupations. The President also will continue to support the Paycheck Fairness Act, which improves the enforcement of wage discrimination laws and provides for research, education, training of EEOC staff, and outreach on this important subject.

CHILD CARE

Expanding the Child Care Block Grant

The President is proposing to expand the Child Care and Development Block Grant to help working families struggling to meet the costs of child care. The President's proposal will: (1) increase funding for child care subsidies by $7.5 billion over five years, enabling the program to serve an additional 1.15 million children by FY 2004; (2) provide $3 billion over five years to promote early learning; and (3) provide $173 million to improve child care quality. Additional funds for subsidies is necessary because millions of families who are eligible for assistance with their child care costs currently do not receive any help: In FY 1997, states provided child care assistance to only 1.25 million of the 10 million low-income children eligible. Additional funding to improve early learning through challenge grants to communities for children ages zero to five is necessary because research shows that children's experiences in the earliest years are critical to their development and ability to reach school ready to learn. Finally, our investment in improving child care must be increased to support quality enhancement efforts such as performing inspections of child care facilities, providing resource and referral services for parents, assisting providers with training and scholarships, and creating networks for family day care providers.

Expanding After-School Opportunities

The President is committed to triple funding for the 21st Century Learning Center Program, which supports the creation and expansion of after-school and summer school programs throughout the country. Experts agree that school-age children who are unsupervised during the hours after school are far more likely to use alcohol, drugs, and tobacco, commit crimes, receive poor grades, and drop out of school than those who are involved in supervised, constructive activities. The program increases the supply of after-school care in a cost-effective manner, primarily by funding programs that use public school facilities and existing resources. In awarding these new funds, the Education Department will give priority to school districts that are ending social promotion by requiring that students meet academic standards in order to move to the next grade. The President's budget will include $600 million in FY 2000 to help roughly 1.1 million children each year participate in after-school and summer school programs.

Giving Greater Tax Relief for Child Care to Three Million Working Families

The Child and Dependent Care Tax Credit provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit depending on the taxpayer's income. The President's proposal increases the credit for families earning under $60,000, providing an additional average tax cut of $354 for these families and eliminating income tax liability for almost all families with incomes below 200% of poverty ($35,000 for a family of four) that claim the maximum allowable child care expenses. The President's budget will include $5 billion over five years to expand the Child and Dependent Care Tax Credit for nearly three million working families paying for child care. The President's plan also includes a new tax credit to businesses that provide child care services for their employees.

Providing Tax Relief to Parents Who Stay at Home

The President believes that we should support parents in whatever choice they make for the care of their children. He therefore is proposing to enable parents who stay at home with children under one year old to take advantage of the Child and Dependent Care Tax Credit by claiming assumed child care expenses of $500. The President's budget proposal will provide an average tax credit of $178, at a cost of $1.3 billion over five years, which will benefit 1.7 million families.

FMLA Expansion

The President is proposing again to extend the benefits of the Family and Medical Leave Act (FMLA) -- the first piece of legislation that the President signed into law -- to ten million more American workers. Today, workers are eligible for up to 12 weeks of FMLA-protected leave to care for a newborn or adopted child, to attend to their own serious health needs, or to care for a seriously ill parent, child or spouse -- if they work at a business with 50 or more employees. By covering workers in businesses with 25 or more workers, 10 million more American workers will be covered by the FMLA. The President is also calling for expanding the law to allow FMLA-eligible workers to take up to 24 hours of additional leave each year to meet specified family obligations. Leave could be taken to: (1) participate in school activities, such as parent-teacher conferences; (2) accompany one's child to routine dental or medical appointments; and (3) accompany an elderly relative to routine medical appointments or other professional services.

Prohibiting Discrimination Against Parents

The President proposed new federal legislation to protect parents from discrimination in the workplace. Building on laws in Alaska, Michigan, New Jersey and other states, this legislation would protect workers from unfair assumptions about their commitment to their job that can affect hiring, advancement, and other employment decisions. This law would not prohibit employers from making hiring and promotion decisions on the basis of job performance, but would ensure that workers are not unfairly discriminated against simply because they are parents.

HEALTH CARE

Addressing Growing Long-Term Care Needs

Over five million Americans, most of whom are elderly, have significant limitations due to illness or disability and thus require long-term care. The aging of Americans will only increase the need for quality long-term care options: by 2030, the number of elderly Americans will have doubled, so that one in five Americans will be elderly. President Clinton has proposed an historic new $6.2 billion initiative to support elderly and disabled Americans with long-term care needs and the millions of family members who care for them. This initiative includes a $5.5 billion investment in a $1,000 tax credit to compensate for the cost of long-term care services; a new $250 million National Family Caregiver Program; a $10 million national campaign to educate Medicare beneficiaries about long-term care options; and $15 million to allow the Federal government to offer long-term care insurance to its employees at group rates.

The Potential of New Biomedical Research

Advances in biomedical research have captured the imagination of all Americans, with scientists now poised to make advances that could revolutionize the way we treat diseases. The President's new $320 million investment in NIH will allow us to make progress in preventing the complications of diabetes, combating diseases associated with aging, like Alzheimers and Parkinson's, and developing vaccines for tuberculosis, malaria, and AIDS.

Protecting Patients through a Strong, Enforceable Patients Bill of Rights

Once again, the President is calling on Congress to pass a strong federally enforceable patients' bill of rights. This Health Care Bill of Rights should contain a range of protections, including guaranteed access to needed specialists, access to emergency room services when and where the need arises, access to a meaningful independent and external appeals process for consumers to resolve differences with their health plans, and the right to be compensated when a health plan's decision causes a patient to be harmed or die. The President is already doing everything he can to implement these protections, by extending them to the 85 million Americans covered by Federal health plans.

Protecting Privacy of Medical Records

The President is challenging the Congress to pass strong bipartisan legislation to protect the privacy of medical records. The President also pledged that if Congress does not pass this legislation this summer, he will take action to implement protections for electronic medical records under the authority given to him by the Health Insurance Portability and Accountability Act of 1996.

Encouraging Small Businesses to Purchase Health Insurance

Many small businesses cannot offer health insurance because of their higher administrative costs and premiums relative to large businesses. As a result, workers in small firms are less likely to have access to affordable, job-based health insurance. Nearly half of uninsured workers are in firms with fewer than 25 employees (relative to 30 percent of all workers). The President is proposing a new $44 million initiative to encourage small businesses to offer health insurance to their workers by developing and/or joining coalitions for purchasing health insurance. This three-part initiative would provide a tax credit to small businesses that decide to offer coverage by joining coalitions; encourage private foundations to support coalitions by allowing their contributions towards these organizations to be tax exempt; and offering technical assistance to new small business coalitions.

Providing New Options for Americans Ages 55 to 65 to Obtain Health Insurance
Americans ages 55 to 65 are one of the fastest growing groups of uninsured Americans. They are also extremely difficult to insure: they have less access to and a greater risk of losing employer-based health insurance; and they are twice as likely to have health problems as the population generally. The President's $1.4 billion proposal gives this vulnerable population three new ways to gain access to health insurance by: (1) allowing Americans ages 62 to 65 to buy into Medicare, through a mechanism that preserves the Medicare trust fund; (2) assisting vulnerable displaced workers 55 and over by offering those who have involuntarily lost their jobs and health care coverage a similar Medicare buy-in option; and (3) giving Americans 55 and over who have lost their retiree benefits access to their former employers' health insurance.

Improving Economic Opportunities for Americans With Disabilities
Since President Clinton and Vice President Gore took office, the American economy has added 17.7 million new jobs. However, the unemployment rate among working-age adults with disabilities is still nearly 75 percent. People with disabilities can bring tremendous energy and talent to the American workforce, yet institutional barriers often limit their ability to work. The President's budget proposes a historic new $2 billion initiative that removes significant barriers to work for people with disabilities. It includes the Work Incentives Improvement Act, which invests $1.2 billion in providing options for workers with disabilities to buy into Medicaid and Medicare; a new $700 million investment in a $1,000 tax credit for workers with disabilities; and more than double the government's current investment, an increase of $35 million, in assistive technologies that make it possible for individuals with disabilities to work.

Improving Health Care Access for Uninsured Workers
This new initiative invests $1 billion over 5 years in local communities to integrate providers that traditionally provide services to the uninsured, such as public hospitals and clinics, into networks that provide a comprehensive range of services to uninsured people. Providers will receive funds to develop the financial, information, and telecommunication systems necessary to monitor and manage patient needs, as well as funds to expand the range of services they deliver.

Providing Critical Mental Health Prevention and Treatment Services
Approximately 44 million adults and 14 million children suffer from a mental disorder each year. The Clinton/Gore Administration's new FY2000 budget includes a $70 million increase -- the largest ever -- in the mental health block grant. This 24 percent increase, totaling $358 million, will enable states to enhance and expand their efforts to assist people with mental illnesses, by targeting particularly-hard-to-reach adults and children with severe mental illnesses, improving school violence abatement programs, helping states provide new effective medications for people of mental illnesses, and providing services to older Americans who are reluctant to reach mental health services in traditional mental health settings. This spring, the Administration will also hold the first ever White House Conference on Mental Health.

Protecting Our Children From Tobacco
Every day, 3000 children become regular smokers and 1000 have their lives shortened because of it. Almost 90 percent of adult smokers began smoking by age 18 and today 4.5 million children -- 37 percent

of all high school students -- smoke cigarettes. The state tobacco settlement is an important step in the right direction, but the President believes additional measures must be taken at the national level to reduce youth smoking and hold the tobacco industry accountable: 1) raise the price of cigarettes, so fewer young people start to smoke; 2) reaffirm the Food and Drug Administration's full authority to keep cigarettes out of the hands of children; 3) fund critical public health efforts to prevent youth smoking and enact measures to hold the tobacco industry accountable for reducing youth smoking; and 4) protect farmers and farming communities. The President's budget will use all the funds resulting from this plan to help reimburse the federal government for its annual tobacco-related health costs. In addition, to ensure that tobacco companies are held accountable for the costs that smoking imposes on the federal government, the President is announcing that the Department of Justice is preparing a litigation plan to bring the tobacco companies to court.

Largest Increase in Family Planning Grants in 15 Years
The President's FY 2000 budget proposal will call for a substantial increase in Title X Family Planning grants, which helps provide women with vital services, including contraception, pregnancy testing, STD screening and treatment. Further details of this increase will be announced later this week.

21ST CENTURY ECONOMY

21ST CENTURY ECONOMY

Re-employment Initiative
In 1995, President Clinton proposed a G.I. Bill for America's Workers to reform our employment and training system for the 21st-century economy by empowering individuals, streamlining services, enhancing accountability, and increasing flexibility. For over three years, President Clinton repeatedly pressed Congress to pass job-training reform based on his original proposal. Last year, the Congress finally passed and the President signed comprehensive job training reform. This year, the President proposes a long-term commitment to ensuring that Americans who are displaced from their jobs can get the training they need to get new jobs.

Helping Adults Who Lack Basic Skills
President Clinton will soon announce a major effort to help the more than 44 million adults who perform at the lowest level of literacy to obtain the skills they need to succeed in today's economy and to help immigrants more fully integrate into our civic and social life. This effort includes the 10% tax credit for employers who provide workplace education programs for their employees and a new award to recognize "High Skills" communities for their outstanding achievement in promoting adult education as announced by the Vice President on January 12. Later this month, the President will announce the other parts of this initiative.

Welfare Rolls Decline as More Recipients go to Work
The President announced that the percentage of the U.S. population on welfare is at its lowest level in 30 years and the welfare rolls have fallen by nearly half since the President took office. The percent of welfare recipients working has tripled since 1992, and all states met the first work participation rates required under the welfare reform law. Two years ago the President challenged the business community to create jobs so that people can move from welfare to work. Today, 10,000 companies of all sizes, industries, and from all regions have joined the Welfare to Work Partnership and are successfully hiring and retaining former welfare recipients.

Additional Welfare-to-Work Assistance for Those Who Need it Most
The President announced that he will propose additional funding for his Welfare-to-Work program to ensure that those remaining on the welfare rolls who face the greatest challenges can succeed in the workforce and to increase the employment of low-income fathers so they can better support their children. This funding will help 200,000 people move from welfare to work and will help increase child support collections, which have gone up 80 percent since 1992. The President will announce further details of this proposal next week.

New Markets Investments Initiative
One of the great still unmet challenges for the start of the 21st century is building economically vibrant communities in those places that our prosperity has not yet reached -- inner cities and distressed rural areas. These new markets here at home have great potential. We must build a bridge between Wall Street and our great untapped markets. The President's new markets initiative will spur $15 billion in new capital investment in businesses in these underserved areas through a package of tax credits and guarantees.

Specifically:

- *New Markets Tax Credit:* A billion dollars of tax credits over five years worth up to 25% of the amount of equity invested in a variety of vehicles for providing equity and credit to businesses in underserved areas.

- *America's Private Investment Companies (APICs):* Each year, five new private investment partnerships of up to $300 million could be created. For each new APIC, HUD and the SBA would provide up to $200 million in loan guarantees to match $100 million in private investment, creating a fund of $300 million for investment in mid-sized firms expanding or relocating into underserved areas.

- *New Market Venture Capital Firms (NMVCs):* SBA will match equity investment and technical assistance funds to finance 10-20 new investment partnerships selected to provide both patient growth capital and expert guidance to entrepreneurs who need both in order to transform their small businesses and great ideas into thriving companies.

- *SBICs targeted to new markets:* Over 40 years, the SBIC program has helped more than 85,000 small companies grow, some from start-ups to household names like AOL; but the program has not done enough to help spur growth in underserved areas. SBA will provide more flexibility and new financing terms, along with aggressive outreach, to promote investment in low- and moderate-income areas by SBICs.

- *New Market Lending Companies (NMLCs):* SBA will approve approximately 10 new non-bank lenders who have a strategy to target their lending to underserved areas.

- *Continued Growth for Community Development Financial Institutions:* In 1994, the President proposed and Congress established the CDFI Fund. This fund further expands the availability of credit, investment capital, financial services, and other development services in distressed communities. The President is proposing to expand funding for the CDFI program to $125 million -- a $30 million increase from FY 1999.

- *Other:* Other elements include seed money to expand BusinessLINC partnerships to encourage large businesses to work with small businesses in new markets and reforms to the Specialized Small Business Investment Company (SSBIC) tax credit to make it easier to use.

Empowerment Zones
Last week Vice President Gore named 20 economically distressed communities as Round Two Empowerment Zones (EZs). Tonight, the President is reaffirming his Administration's commitment to securing full funding for round two EZs. If Congress approves full funding for the EZs, federal investment is expected to help create and retain about 90,000 jobs and stimulate $20.3 billion in private and public investment in the next 10 years.

Community Development Financial Institutions Fund (CDFI)
In 1994, the President proposed and Congress established the CDFI Fund. This Fund further expands the availability of credit, investment capital, financial services, and other development services in distressed communities. The President is proposing to expand funding for the Fund to $125 million, including $15 million for a new microenterprise initiative.

Crop Insurance Program
In the midst of the strongest economy we have enjoyed in decades, many farmers are suffering and others

are at risk through no fault of their own. Natural disasters, coupled with declining demand abroad (exports have accounted for roughly a third of our farm products) brought historic losses last year. The President fought for and got an additional $6 billion in emergency aid for farmers in 1998. But this is not an unexpected or one-time-only problem. When the President signed the 1996 Freedom to Farm Act, he called for additional work to be done to create an adequate safety net for farmers. In his State of the Union, he pledged to work with Members of both parties to achieve the needed reforms -- both in the crop insurance program and in farm income assistance -- this year.

Information Technology Research
President Clinton and Vice President Gore will propose a more than 30-percent increase of at least $366 million in the government's investment in information technology research. The Vice President will announce the specifics of this initiative later this week.

Y2K
The year 2000 problem results from a computer programming practice that for over 30 years designated a year by its last two digits, such as "99" for "1999". When the program has to deal with the year 2000, or "00", malfunctions may occur in software applications or operating processes because the program stops, reads the year as "1900", or otherwise produces erroneous information. The President and Vice President have been leading the attack on this problem by establishing a goal for all Federal programs to be year 2000 compliant by March 31, 1999 and by establishing the President's Council on Year 2000 Conversion. The December quarterly report from the Office of Management and Budget indicated that 61% of the Federal Government's mission critical systems, such as those for issuing Social Security checks, were already year 2000 compliant and 90% of the work to repair such systems had been completed with testing of the fixes underway. The Council's mandate is to coordinate the work of Federal agencies as they correct their own systems and to reach out to governments at all levels as well as the private sector to help facilitate their efforts to meet the challenge of crossing into the next century without noticeable difficulty.

Financial Architecture
As the world's strongest economy and largest exporter, America alone can and must lead the world in addressing the global financial crisis and in designing a global financial architecture for the 21st century. Starting last year, the President laid out a strategy working with key emerging and industrial economies to address the current crisis and restore recovery, by providing the IMF expanded resources and new tools, by strengthening social safety nets to protect the most vulnerable, systemic approaches to rebuilding financial and banking sectors, and establishing "precautionary" means for assisting countries with strong policies ward off contagion. Longer term, we must prevent the disruptive cycle of boom and bust by strengthening openness and accountability, strengthening national financial systems and international surveillance, providing more orderly mechanisms for crisis response, and ensuring the participation of the private sector in crisis prevention and mitigation. This work will culminate in the meeting of G-7 leaders in Cologne Germany in June.

A Firm Commitment to Free and Fair Trade
The global financial crisis has touched the lives of many Americans. The steel industry has experienced a surge in low-priced imports into the United States that has adversely impacted our companies, workers and communities. This Administration is taking forceful steps to vigorously enforce our trade laws, to engage major exporting and importing nations to trade fairly and to bear their fair share of the import burden, to help crisis-stricken countries achieve recovery, and to provide American communities, workers and companies with the resources they need to adjust to the forces of globalization. We have informed Japan, which accounts for almost half of the surge in steel imports into the United States, and whose exports in hot rolled sheet steel have risen by over 400 percent from 1997 to 1998, that it must trade fairly, and that

we expect its exports to fall to appropriate pre-crisis levels. We are prepared to take appropriate WTO-consistent actions under our trade laws to ensure that happens. The President has made clear that open, rules-based trade is essential for both global economic recovery and continued U.S. prosperity.

"Fast Track" Traditional Trade Negotiating Authority
The President called for a new consensus granting him "fast track" trade authority to expand America's opportunities in the global economy while ensuring that increased competition does not become a race to the bottom. With a global round of trade negotiations just around the corner and with the global financial crisis threatening hard won gains, it is more important than ever to give the President traditional trade authority to break down trade barriers that put American products made by American workers at a disadvantage. This authority has been given to every president since 1974 in order to pursue America's national interest in the global economy. Without trade authority, America's role as the largest exporter in the world could be put in jeopardy and America's ability to continue creating higher-paying jobs for more Americans could be undermined.

Caribbean Basin Trade Enhancement
The President will work with Congress toward swift passage of legislation expanding Caribbean Basin Initiative (CBI) trade ties with Caribbean and Central American countries. This trade legislation will create opportunities for American companies and workers even as it provides enhanced market access and economic stimulus for countries devastated by Hurricane Mitch.

New WTO Round of Global Trade Negotiations
The President is calling for the launch of an ambitious new WTO Round to shape the world trading system in the 21st century when world trade ministers meet in the United States this December. The United States must play a leadership role: as the world's largest exporter, we have the most at stake. A successful Round will mean dramatic market liberalization for America's world class farmers and ranchers, critical market opening for competitive American service providers, such as express delivery, environmental, energy, audiovisual, and professional services, who are competing in markets where the preponderance of global trade is still not subject to WTO rules, removal of tariffs on industrial goods where many trading partners in Asia, Latin America and elsewhere still maintain far higher rates than the United States, and further opening in government procurement markets. The President is calling for a new type of Round for the new century, which could yield concrete early results in key areas, ensure that labor and environmental standards are fully protected so that trade opening does not lead to a race to the bottom and result in a more open and accountable WTO system.

International Labor Rights
The global economy holds the promise of a higher standard of living for more people in more countries, but we must ensure that spirited competition among nations never becomes a race to the bottom on labor standards. President Clinton's FY 2000 budget will provide almost $40 million for the first time ever to help developing countries implement and enforce core labor and workplace safety standards and build social safety net programs such as unemployment insurance and pensions. Specifically, the United States will provide: $25 million to establish a new multilateral program at the International Labor Organization (ILO) to provide technical assistance to labor rights efforts; $9.5 million to the Department of Labor to help our trading partners strengthen their enforcement and implementation mechanisms; and $5 million to the Department of State to encourage cooperative efforts to eliminate international sweatshops.

Child Labor
Last year the President fought for and obtained a ten-fold increase in the U.S. contribution to the International Program for the Elimination of Child Labor -- a $30 million contribution making the U.S. the

world's leader in the fight to reduce the most intolerable forms of child labor. This year, we will insist on maintaining that level of IPEC funding while adding a new $10 million program -- "School Works" -- through U.S. AID to improve access to education to make it easier to get kids out of hazardous workplaces. In addition, the proposal calls for additional agents for the U.S. Customs Service to enforce the ban on the importation of goods made with forced or indentured child labor (almost doubling the enforcement budget from $3 million to $5 billion) and an increase of $4 million (above last year's $3 million) for domestic enforcement of labor laws in industries vulnerable to child labor -- garment and "salad bowl" farms.

U. S. Manufacturing Exports
Manufacturing exports have been a key engine of America's sustained economic expansion. However, the global financial crisis has put that progress at risk. To help American manufacturers safeguard their hard-won gains in foreign markets and expand into new growth areas, the Administration is launching a $108 million initiative to spur nearly $2 billion in additional U.S. exports, which will sustain or create 16,000 high-wage American manufacturing jobs. First, the initiative boosts funding for the Export-Import Bank by 10 percent ($81 million) to keep U.S. products -- from aircraft parts to capital equipment to environmental technology -- flowing to emerging markets where commercial banks have withdrawn. Second, the Trade Development Agency will receive an additional $4 million for feasibility studies to enable U.S. companies to participate in major export-generating infrastructure projects overseas. Third, the initiative provides $14 million for the Department of Commerce's International Trade Administration (ITA) to increase resources for export advocacy and service delivery to small manufacturers. Finally, the initiative provides $9 million for ITA and Commerce's National Institute of Standards and Technology to help developing countries establish a legal and regulatory infrastructure to make it easier for U.S. firms to export.

A STRONG AMERICA IN A NEW WORLD(NSC)

Africa Growth and Opportunity Act
The President is committed to working with Congress on passage of the African Growth and Opportunity Act. This trade initiative would expand trade and investment ties with African strongest reformers by providing greater market access for selected products. The African Growth and Opportunity Act is a core element of the President's Partnership for Economic Growth and Opportunity in Africa, which aims to raise living standards and create jobs. American companies, farmers, and workers all stand to benefit from expanding our trade with the largest underdeveloped market in the world.

21ST CENTURY COMMUNITIES

CRIME/DRUGS

21st Century Policing Initiative
In order to keep crime coming down to record low levels and the number of officers walking the beat at an all-time high, the President is committing nearly $1.3 billion for a new 21st Century Policing Initiative. The new 21st Century Policing Initiative builds on the President's successful COPS program by: (1) helping communities to hire and redeploy between 30,000 and 50,000 more law enforcement officers over five years, with an effort to target new police officers to crime "hot spots" and to help retain those officers recently hired; (2) giving law enforcement access to the latest crime-fighting technologies, such as improved police communications, crime mapping software, laptop computers, and crime lab improvements; and (3) making an unprecedented commitment to engage entire communities in the hard work of preventing and fighting crime -- by funding new community-based prosecutors, and partnerships with probation and parole officers, school officials, and faith-based organizations.

Zero Tolerance Drug Supervision
Numerous studies confirm that the vast majority of prisoners report drug use and that many prisoners commit their crimes to buy drugs or while high. To help break this iron link between crime and drugs, the President will propose $215 million for Zero Tolerance Drug Supervision that works to keep offenders drug- and crime-free. This initiative will provide new funds to help states and localities implement tough new systems to drug test, treat, and punish prisoners, parolees, and probationers. In addition, this initiative provides increased funds for innovative drug courts throughout the country and intensive drug treatment for state prisoners with the most serious drug problems.

Making Permanent the Brady Waiting Period for Handgun Sales
The Brady Law, which requires background checks of all prospective firearms purchasers, has stopped well over a quarter of a million illegal handgun sales since its enactment in 1993 -- proving itself to be one of the most effective law enforcement tools ever. But the Brady Law's "cooling off" or waiting period recently expired, and handguns can now be purchased on the spot in some states. To make sure that local law enforcement officers have enough time to conduct the best background check possible, the President will call for a new national waiting period of up to five days before the purchase of a handgun.

Preventing Violent Juveniles from Buying Guns
Violent juveniles should be treated as adults for their adult crimes, and stopped from getting weapons to hurt again. The President will propose legislation to ban violent juveniles from buying guns for life. The President's proposal would extend the Brady Law to violent juveniles, closing the loophole under current law which permits youths convicted in juvenile court for certain violent and drug offenses to buy handguns on their 21st birthday.

Child Safety Locks for Handguns
Child safety locking devices can reduce the unauthorized use of handguns, by a child at play or a teen looking to commit a crime. And many youths have to look no further than their own home to get access to a gun: a third of all privately-owned handguns are left both loaded and unlocked. To address this problem, the President's proposal would require federally-licensed firearms dealers to sell a child safety lock with every handgun -- to help prevent youths from hurting themselves or each other.

Helping Make All Schools Safe, Disciplined, and Drug-Free
President Clinton is proposing a significant overhaul of the nearly $600 million Safe and Drug-Free Schools and Communities Program to provide more effective prevention programs for the reduction of drugs and violence in schools, more accountability for results, and better targeting to those schools that need the most assistance.. Under the President's proposal, schools would be required to adopt rigorous, comprehensive school safety plans that include: tough, but fair, discipline policies; safe passage to and from schools; effective drug and violence policies and programs; annual school safety and drug use report cards; links to after school programs; efforts to involve parents; and crisis management plans.

ENVIRONMENT

Climate Change
On the heels of the announcement that 1998 surpassed 1997 as the warmest year on record, the President's FY 2000 budget will propose a package of investments and tax cuts to help address global climate change. It includes start-up funding for a new Clean Air Partnership Fund (discussed below) and tax incentives to promote the purchase of energy-efficient cars, homes, and appliances, spurring the swift movement of innovative technologies into the market. Proposed increases in Federal spending would help foster a new generation of clean, energy-efficient technologies and renewable energy, as well as support research to identify and quantify carbon sinks in forests and farmlands. This package complements the other elements of the Administration's climate change plan, which include working cooperatively with industry sectors on initiatives to cut greenhouse gas emissions, strengthening efforts to incorporate energy efficiency goals into Federal procurement and energy use, working with Congress to reward companies taking early, voluntary action to reduce their emissions, and restructuring the electricity industry. In addition, the Administration will continue its vigorous diplomatic efforts to fill in key details of the Kyoto Protocol in areas such as international emissions trading, as well as to encourage the meaningful participation of developing countries in efforts to address global warming.

Livability Agenda Community Planning and Collaboration
To help communities across America grow in ways that ensure a high quality of life and strong, sustainable economic growth, President Clinton and Vice President Gore are proposing a comprehensive Livability Agenda providing new tools and resources for state and local governments. The initiative includes: a record $6.1 billion for public transit, plus $2.2 billion for other innovative programs to promote improved transportation planning and ease traffic congestion so commuters can spend less time in traffic and more with their families; $50 million in matching grants to help neighboring communities develop collaborative "smart growth" strategies; and $100 million to encourage citizen participation in the design of schools as centers of their communities, provide communities with new information tools so they can grow according to their values, and improve public safety by sharing crime data among communities. By delivering tools and resources to the local level, where issues of growth are most appropriately addressed, this initiative helps empower citizens to build more "livable communities" for the 21st century.

Livability Agenda: Better America Bonds
To help communities reconnect with their land and water, preserve green space for future generations, and provide attractive settings for economic development, the Administration is proposing a new financing tool generating $9.5 billion in bond authority for investments by state, local and tribal governments. The President's budget will propose tax credits totaling approximately $700 million over five years -- to support Better America Bonds, which can be used to preserve green space, create or restore urban parks, protect water quality, and clean up brownfields (abandoned industrial sites). The program will be coordinated through an interagency process.

Lands Legacy Initiative
To meet the conservation challenges of a new century, President Clinton and Vice President Gore are proposing a $1 billion Lands Legacy Initiative -- the largest one-year investment ever in the protection of America's land resources. This FY 2000 budget proposal -- a 125 percent increase over FY 1999 -- expands federal efforts to save America's natural treasures, and provides significant new resources to states and communities to protect local green spaces. To sustain these efforts in the new century, the President commits to work with Congress to create a permanent funding stream beginning in FY 2001. In addition, the President calls on Congress to extend permanent wilderness protection to more than 5 million acres within 17 national parks and monuments. This landmark initiative charts a new conservation vision for the 21st century, preserving irreplaceable pieces of our natural legacy within easy reach of every citizen.

Clean Air Partnership Fund
To help protect public health and ease the threat of global warming, President Clinton is proposing a new Clean Air Partnership Fund supporting state, local and private efforts that achieve early reductions in both greenhouse gas emissions and ground-level air pollutants. The Fund, to be included in the President's FY 2000 budget proposal, will direct new resources to state and local governments to provide financing for public and private sector projects that accelerate pollution reductions. This new financing will support projects that go beyond legal requirements and enable communities to achieve clean air goals sooner. Targeting the financing to projects that reduce both carbon emissions and health-threatening pollutants -- such as smog, soot or air toxics -- will stimulate integrated, cost-effective pollution control strategies. In addition, the Fund will spur technological innovation, encourage public-private partnerships, and leverage substantial non-federal investment in improved air quality. The Fund will be administered by the Environmental Protection Agency under existing authority.

SERVICE

AmeriCorps
President Clinton called on Congress to increase support for AmeriCorps. When he came into office, the President outlined a vision for a national service program which would allow young people to serve our nation while earning funds for college. Since 1994, more than 100,000 Americans have served their country and community through AmeriCorps. Serving in more than 4,000 communities, AmeriCorps members have taught, tutored or mentored more than 2.6 million children, operated after-school programs for more than 500,000 at-risk youth, recruited or organized more than 1.7 million volunteers, and operated more than 40,000 neighborhood safety patrols. In the FY 2000 budget, the President is proposing a $133 million dollar increase over FY 1999 for the Corporation for National Service in order to expand AmeriCorps and support other national service programs.

POLITICAL REFORM

Enact Bipartisan Campaign Finance Reform
The President remains committed to the enactment of bipartisan campaign finance reform. Tonight he is challenging the Congress to pass bipartisan reform early this year. Acceptable campaign finance reform legislation must meet five criteria: 1) it must be bipartisan; 2) it must be comprehensive; 3) it must reduce the amount of money that is raised and spent on federal elections; 4) it must help level the playing field between challengers and incumbents; and 5) it cannot favor one party over the other.

ONE AMERICA

English Literacy/Civics Initiative
President Clinton is proposing an initiative to help states and communities provide expanded access to high-quality English-language instruction, linked to practical instruction in civics and life skills including how to navigate the workplace and public education system. This initiative is designed both to help meet the extraordinary demand for English and civics instruction in immigrant communities and to demonstrate our shared commitment to fully integrating new Americans into our social and civic life. States, community-based organizations, local education agencies, and other non-profits will compete for grants to support English proficiency and civics instruction. With $70 million, the initiative will be able to provide English language and civics instruction to approximately 150,000 people in FY 2000.

Civil Rights Enforcement
The Clinton Administration's Fiscal Year 2000 budget contains $663 million for civil rights enforcement agencies and offices -- an increase of $84 million, or 15 percent, over last year's funding. This budget maintains the President's commitment to ensure equal opportunity for all Americans: that no one should be denied such essentials as a job, a home, or a chance at an education because of the color of their skin, a disability, their gender, or their religion. Highlights of the President's package include: (1) a $13 million increase for the Civil Rights Division at the Department of Justice -- the largest increase in nine years -- to permit the Division to expand investigations and prosecutions of criminal civil rights cases (including hate crimes), fair housing and lending cases, and violations of the Americans with Disabilities Act; (2) a $14 million Equal Pay Initiative at the EEOC and the Department of Labor; (3) a $33 million overall increase for the EEOC -- from $279 to $312 million; (4) an $11 million overall increase for the Office of Federal Contract Compliance (OFCCP) at the Department of Labor to expand the compliance assistance strategy to encourage Federal contractor compliance through increased outreach, education, and technical assistance; and (5) $5 million to the Department of Justice for the creation of a Civil Rights Enforcement Partnership that will provide competitive grants to help build the capacity of States to address specific enforcement issues within their jurisdictions by hiring additional staff.

PERORATION: THE MILLENNIUM

Millennium Communities Program

The President invites community leaders and all Americans to be part of our national Millennium program, using the millennium as an opportunity to engage in meaningful activities that mark this milestone in human history. Millennium Communities is a new program of the White House Millennium Council in partnership with major intergovernmental associations which represent local elected officials and Native American leaders. The special designation of "Millennium Community" will be awarded to those communities which propose plans to carry out the national theme, "Honor the Past -- Imagine the Future." Elected officials will submit plans that preserve their history and prepare citizens for the 21st century, and their respective associations will recommend the official designation. Millennium Communities will receive the use of the national millennium logo and motto, register their projects on a new web site and be honored in other ways.

Save America's Treasures Program

Save America's Treasures is a national millennium program, designed as a public-private partnership, to preserve our deteriorating historic sites, art, artifacts, documents and monuments, so that they may inform future generations of the American story. President Clinton requested, and Congress appropriated $30 million to Save America's Treasures in FY99. The private sector partner, the National Trust for Historic Preservation, created the Millennium Committee to Save America's Treasures, with Hillary Rodham Clinton as the Honorary Chair. That group has sparked attention and raised contributions which already surpass the federal commitment. Mrs. Clinton has visited over twenty historic sites and collections since last July, bringing recognition and support to the places and objects that embody our heritage and culture. Some of the preservation projects underway are the conservation of the Star-Spangled Banner at the Smithsonian Institution, the re-encasement of the Declaration of Independence and the Constitution at the National Archives, and the new exhibition space at the Thomas Edison National Historic Site. The Administration's forthcoming budget will propose additional funding for Save America's Treasures.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 12:26:22.00

SUBJECT: DRAFT Press Paper and Q&A for Today

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

TEXT:
---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on
01/19/99 12:28 PM ---------------------------

Jonathan Orszag
01/19/99 02:46:41 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: DRAFT Press Paper and Q&A for Today

We need to get the press paper out this morning -- thus, we must have comments back by 9:45 AM. The draft q&a should provide some guidance -- if you have comments please provide them as soon as possible in the morning (but review the press paper first). Sorry for the short time frame and thanks, in advance, for the help.

Press Paper (COMMENTS BACK BY 9:45):

More Q&A Than You'll Ever Want (DRAFT -- COMMENTS BACK AS SOON AS POSSIBLE):

Message Sent
To:____
Jeff B. Liebman/OPD/EOP
Melissa G. Green/OPD/EOP
Jake Siewert/OPD/EOP
Barbara Chow/OMB/EOP
Douglas W. Elmendorf/CEA/EOP
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=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D98]MAIL474482918.036 to ASCII,
The following is a HEX DUMP:

SAVING SOCIAL SECURITY FIRST
AND
MEETING AMERICA'S CHALLENGES
FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To "Save Social Security First," While Meeting America's Challenges for the 21st Century. The President's and Vice President's framework strengthens Social Security by:

- Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.5 trillion -- to the Social Security system.
- Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state, local, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently, without political interference, and with low administrative costs by the most efficient private-sector managers.
- Keeping Social Security solvent until 2055.
- Calling for a bipartisan effort to make the hard-headed, but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:
  - Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.
  - Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President believes that these new resources should be used to help achieve broader, bipartisan reforms -- which include a prescription drug benefit.
- **Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, the government will provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each dollar an individual puts into the USA account -- with larger matches going to lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national domestic priorities, such as education and research.

SAVING SOCIAL SECURITY FIRST: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY

In his State of the Union Address, President Clinton Put Forward A Framework To Strengthen Social Security for the 21st Century. Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will therefore be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, Social Security will have only enough resources to cover 72 cents on the dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

Use the Budget Surplus To Save Social Security

- **"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

- **62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than $2.5 trillion -- to Social Security. To achieve higher returns for Social Security, approximately one-quarter of the transferred surpluses will be invested in the stock market.

Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security

- **Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and include a mechanism to ensure investments are made independently, without political interference, and with low administrative costs using a broad-based neutral approach by the most efficient private-sector managers.

- **President's Framework to Invest In Equities Minimizes Risk.** Whatever risk of ups and downs in the stock market will be borne by the government, not retirees. Moreover, the risk to the government will be very small. For example, in 2032, 95 percent of retirement benefits will come from payroll taxes or redemption of Treasury bonds. That means that just six cents on every dollar Social Security pays out will depend on stock market performance.

Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075

- **President's Framework Keeps Social Security Solvent Through 2055.** By transferring half of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

- **Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable, choices to save Social Security through at least 2075.

With This Framework -- Publicly Held Debt, As Share of GDP, Falls To Lowest Since 1916.

- **Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the publicly held debt quadrupled, rising from $785 billion in 1981 to $3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 25.8 percent in 1981 to 50.2 percent in 1993. Since President Clinton took office, the publicly held debt -- as a share of GDP has dropped to about 45 percent.

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since Before World War II.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to 8.1 percent in 2014 -- its lowest level since 1916.

Reduce Poverty Among Elderly Women -- Particularly Widows

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** For 25 percent of unmarried women, Social Security is their only source of income. The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are significantly higher than men: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

- **President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when were alive. The official poverty thresholds imply that a widow needs 79 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

Eliminate the Out-Dated and Confusing Earnings Test

- **Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing and tattered relic of a past era. It discourages the elderly from working; indeed, one recent academic study concluded that eliminating the earnings test could increase labor supply among elderly beneficiaries by 5.3 percent. It is confusing and administratively complicated; many beneficiaries are bewildered by the rules and administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

- **President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:

STRENGTHENING MEDICARE FOR THE 21st CENTURY

RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE, EXTENDING THE LIFE OF THE MEDICARE TRUST FUND FOR 20 YEARS.

- **We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed towards longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

- **Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- more than $600 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.

- **New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to efficiently providing health care to the elderly and people with disabilities in the 21st century.

UNIVERSAL SAVINGS ACCOUNTS (USAs)

RESERVE 12 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.

- **USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** Under the President's framework, we will reserve 12 percent of the projected surpluses over the next 15 years -- about $33 billion per year -- to create Universal Savings Accounts (USAs), so that every working Americans can build wealth and a nest egg for retirement. This will help strengthen the other two legs of retirement security: personal savings and pensions.

- **Under Hypothetical Example, Average Person Could Build About $130,000 in Wealth in USA Account.** While the full details of how USA accounts will be structured need to be worked out, one potential way would be for an average worker -- earning $45,000 -- to receive a flat $100 contribution from the government. Then, if the average worker contributes $600 each year -- about $11.50 per week -- the government would provide a matching contribution of half that amount (or $300). In other words, the government would put $400 into the USA account, if the worker put $600. With the power of compound interest, the USA account would grow to about $130,000 during the individual's working life. Changes in the size of the contribution and the match rates would alter the outcome of this example.

- **We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured.** President Clinton believes the government should provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger matches going to lower-income workers. However, we want to work with Members of Congress, and pension and personal savings experts to ensure that USA Accounts build on the current private-sector pension system and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be announced later.

MILITARY READINESS AND

OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES, SUCH AS EDUCATION AND RESEARCH.

- **Ensuring America's Military Continues to be Ready for the Challenges of the 21st Century.** At the beginning of January 1999, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. Reserving 11 percent of the projected surpluses over the next 15 years -- nearly $500 billion -- will provide the resources to meet the President's proposed detailed blueprint for military readiness over the next six years.

- **Ensuring We Meet Other Critical Investments In America's Future.** Besides military readiness, the setting aside of 11 percent of the projected surpluses will allow America to meet its other critical investment needs, such as education and research.

INDEX OF Q&As

Treasury bonds?
- Would the Trust Fund investments contemplated under this plan affect prices in the stock market?
- If the surpluses are only invested in publicly traded equities, won't this be unfair to small companies?
- Isn't this just another form of taxation?
- Shouldn't the government use Trust Fund assets to promote urban America / the environment / education?
- Are you going to use the trust funds to support share prices in case of a market downturn?
- Will you sell stock to improve the budget picture?
- What would happen during a market downturn? Would the government guarantee the existing benefit structure, by raising taxes? Or would social security benefits be cut?
- What has been the experience of state and other governments that have invested in equities?

TOUGH CHOICES (PAGE 21-23)

- What types of options are on the table to extend the trust fund's life to 75-years?
- Would the President consider raising the retirement age (similar questions on COLAs, tax increases, benefit cuts)?
- Are you trying to achieve 75-year solvency or are you trying to do more?
- If we only do 75 years, won't we have to do reform again in a few years?
- Why didn't the President show leadership by proposing specific benefit cuts and tax increases?
- Isn't the President proposing all of the easy good news and leaving the pain for later?
- What kind of process do you envision to try to get reform done?
- Would the President be satisfied with protecting Social Security for 50 years?

REDUCING THE POVERTY RATE OF ELDERLY WOMEN (PAGE 24-27)

- What does the President plan to do to reduce poverty among elderly women?
- Why focus on widows rather than the elderly poor in general?
- Why is widow poverty higher than poverty among married women?
- Does Social Security provide a good deal for women?
- Won't this be very expensive?
- Won't adding new benefits make it harder to achieve the 75-year goal?
- Won't widow poverty disappear on its own as more and more women retire who have had substantial labor market experience over their lifetimes?

MEDICARE (PAGE 28-33)

- Why not Medicare first?
- Why not more for Medicare?
- Isn't this a gimmick to prevent Republicans from giving Americans a tax break?
- Isn't this just giving more money to the elderly?
- When comparing this use of the surplus to marriage penalty relief, aren't you helping more wealthy people?
- What does it mean, that these funds are "protected"? In a unified budget, can't Congress use the Medicare Trust Fund surplus to offset other spending priorities or tax cuts?
- Is the President intending on proposing a prescription drug benefit for Medicare?
- How much would a prescription drug benefit cost? Would it be paid for from the surplus?
- Isn't this getting ahead of the Medicare Commission?
- By putting over $600 billion dollars of taxpayer-produced revenue into Medicare, aren't you just throwing more money at the problem without any long-overdue structural reforms?
- Doesn't this give Democrats in Congress a pass on doing real Medicare reform?
- Why not just raise taxes, as your Medicare Commissioner Bruce Vladeck recommended?
- What is your plan for reforming Medicare? Do you support the Medicare voucher proposal being put forth by the Commission?
- The Medicare Commission is discussing raising the Medicare eligibility age from 65 to 67 -- making it consistent with phase up for Social Security. What is the Administration's position on this?
- What is your position on [graduate medical education reform, Medigap reforms, etc.] that are being considered by the Commission?
- Given the huge new infusion of funds to the Trust Fund, why is your budget proposing $8 billion in hospital cuts?
- If you wanted this proposal to be well received by both parties, shouldn't you have consulted with them prior to unveiling it?

ALTERNATIVE APPROACHES TO SOCIAL SECURITY REFORM (PAGE 34-35)

- Did the President rule out an individual account as part of Social Security?
- Did the President rule out a carve out approach?
- Isn't your USA account simply an individual account plan under another name?
- Aren't you trying to have it both ways by opposing individual accounts as part of Social Security, yet proposing them outside of Social Security?
- Are you against a plan like Martin Feldstein's that invests through individual accounts but uses the proceeds to help the trust fund?

ELIMINATING THE EARNINGS TEST (PAGE 36-38)

- Hasn't Social Security always been a program only for people who are retired? Why change that?
- Won't eliminating the earnings test benefit higher-income people?
- What would the long-run actuarial effect be? Won't this hurt the Social Security system?
- What are the benefits of eliminating the test?
- Would you favor eliminating the earnings test even in the absence of a comprehensive deal on Social Security?
- Isn't it expensive? How will you pay for it?
- Do you intend to eliminate the earnings test at all ages, or just above the normal retirement age?

SOCIAL SECURITY
January 19, 1999

<u>Overall Package</u>

Q: Aren't you spending the surplus for things other than Social Security? Doesn't this violate the President's commitment to save Social Security first?

A:

- Not at all. The President has made clear that the entire budget surplus should be reserved until we have strengthened Social Security, and this framework is consistent with that policy.

- What the President has done in the State of the Union is outline how much of the surplus we should devote to Social Security, and where we would invest the rest. But only when we have put a framework in place to save Social Security would we dedicate the remaining portion of the surplus to Medicare, Universal Savings Accounts, and other long-term priorities.

- We hope that the prospect of making those critical investments provides an incentive for Congress to move quickly on Social Security reform, but we remain committed to saving Social Security first.

Q: Is this your opening bid or a final offer?

A:

- We want to work with Congress to pass a bipartisan plan to reform Social Security and meet America's other long-term challenges. We understand that Congress will have its own ideas about reform and long-term priorities, and that the process must be bipartisan to work effectively. By outlining his own vision for how the surpluses should be invested, the President aims to build momentum for that process.

Q: What happens if we have a recession and surpluses end up lower than forecast?

A:

- Our projections for future economic performance are quite conservative, and over the long term, should account for the usual ups and downs in the business cycle. Over the past six years, our economic assumptions have proven extremely conservative -- growth has consistently been higher and the budget outlook stronger than we originally estimated. This plan is built around that same principle of conservative forecasting.

- In order to ensure that Social Security is secure over the long term, the framework also locks in dollar amounts for the Trust Fund. The amounts are not contingent on the actual size of the surplus -- we propose that they be chiseled in stone today. That ensures that more than $2.5 trillion is locked in for the Trust Fund over the next 15 years.

Q: Why not just spend 100 percent of the surplus on Social Security?

A:

- First of all, until we have strengthened Social Security, the entire surplus is reserved. The President believes that dedicating 60 percent of the surpluses to Social Security, more than $2.5 trillion over the next 15 years, ensures that reform will be balanced around new money, higher rates of return, and tough choices.

- If we can find a satisfactory way to invest a third of those funds in equities, we can extend the life of the Trust Fund to about 2055. We also need to work with Congress to pass a bipartisan plan that also makes the tough but sensible choices to extend the life of the Trust Fund to the year 2075 -- so that every person working today can be certain that their benefits will be there when they retire.

Q: If you think we need only 60 percent of the surplus for Social Security, why don't we just free up the other $2 trillion now?

A:

- We believe that it is crucial to provide incentives for Social Security reform, which the President's strategy does. By not letting anyone touch the surpluses until we have addressed Social Security, the strategy provides an incentive to getting reform done.

- In addition, it may turn out that we need more of the surpluses to get Social Security reform doe that we currently expect. It would be irresponsible to dissipate the surplus before we see how much it actually takes to get reform done.

- Once we have addressed Social Security reform, there are other worthy uses for the surplus -- which the President outlined in the State of the Union -- which we can address only after we have faced up to the long-run challenge of Social Security.

Q: Isn't it irresponsible to be allocating surpluses so far out in the future?

A:

- Any effort to save Social Security necessarily involves making some long-range projections about the future of our economy and our budgets. To be safe, we have used the same conservative approach economic to forecasting that has been the hallmark of the Clinton administration. Every year of the Clinton presidency, those assumptions about future economic and budget performance have proven safe and conservative -- growth has been consistently higher and the budget outlook consistently better than our original forecasts.

- Also, we restrict ourselves to using surpluses over the next 15 years -- even though we are projecting surpluses much further out.

- Sixty percent of the surplus is allocated for Social Security, leaving 40 percent for other priorities. This framework aims to lock in more than $2.5 trillion over the next 15 years for Social Security -- which, if we can find a satisfactory way to invest a third of that money in the market, would secure the Trust Fund for the next 50 years. We also need to work with Congress to pass a bipartisan plan that also makes the tough but sensible choices to extend the life of the Trust Fund to the year 2075 -- so that every person working today can be certain that their benefits will be there when they retire.

Q: Why are you aiming for solvency in 75 years?

A:

- Since the beginnings of Social Security in the Roosevelt administration, policy makers have tried to make sure that the system was on a sound footing for 75 years and beyond.

- Ensuring the solvency of the trust Fund for 75 years means that virtually any worker contributing to Social Security today will receive the retirement benefits he or she deserves. We should be able to tell a 22-year-old who has taken a job and begun contributing to Social Security, that the benefits will be there even if she lives to be almost 100 years old.

Q: Shouldn't you balance the non-Social Security budget?

A:

- The unified budget is the traditional measure used to analyze the budget. It determines the net change in publicly held debt.

- The most important objective for us is to continue raising our national savings rate -- up from 3.1 percent of GDP in 1992 to 7.5 percent now (Q1-Q3 1998), largely because we have eliminated the Federal deficit.

- Under the President's plan the budget surplus's contribution to national savings would increase savings by **XX** percent of GDP, and the USA account contributions are expected to add another **XX** percent.

- Higher saving will help us to raise investment and productivity, which will help to prepare for the future -- including the retirement of the baby boomers. And the unified budget reflects the Federal government's contribution to national saving.

Q: Doesn't your budget use Social Security's own trust fund surpluses to finance new FY 2000 spending? How can you say that you are preserving Social Security when your own budget spends the Social Security surplus?

A:

- No. The Administration's FY 2000 budget remains faithful to the budget scoring rules, and saves the surplus until the health of Social Security is restored. The Administration's new spending and tax cut proposals are fully offset by reductions elsewhere in the budget. The President's proposals for how to allocate the surplus addresses how the surplus should be used once Social Security reform is secured.

Q: Can't we just grow our way out of the problem?

A:

- The Social Security system as a whole is also not particularly sensitive to the growth rate. Higher growth provides more revenue for the system, but also ultimately raises benefits for future retirees. Growth would have to increase to implausibly high rates to address a significant part of the long-run Social Security challenge.

- The current imbalance in the system amounts to 2.19 percent of taxable payroll over the next 75 years. Every 0.1 percentage point increase in growth reduces that imbalance by about 0.1 percent. So even a 0.5 percentage point increase in long-run growth -- which is a relatively large increase by historical standards -- would only eliminate about one-fourth of the long-run problem.

Tax Cuts

Q: Does this plan mean no tax cuts?

A:

- The President's framework dedicates the surplus to meeting America's long-term challenges -- ensuring that Social Security and Medicare are there when we need them, paying down the national debt and giving every working American a chance to have a pension and build a nest egg for their retirement.

- Through the Universal Savings Accounts, the government will return $500 billion to the American taxpayers and allow them to prepare for the future.

- That is the President's vision for what we do with the hard-won surpluses. We understand that Congress may have different priorities, and we expect to hear their ideas in the days ahead. But the President wanted to lead the debate about how we meet America's long-term challenges. And it is important to keep in mind that, before we use a penny of the surplus, we need to pass comprehensive Social Security reform.

Q: But don't the American people deserve a tax cut?

A:

- The American people deserve a government that plans for the future.

- Under the President's framework, nearly 90 percent of our surpluses would be reserved for the long-term challenges of strengthening Social Security, Medicare, and creating new individual pensions. The remainder of the surplus would be reserved for military readiness and other pressing national domestic priorities, such as education and research.

- We think that is a responsible approach to meeting our challenges, and is one that the American people can and will support. We fully expect that others will have different ideas about put this hard-won dividend to use. That topic should be the focus of some debate, but the President has shown leadership by outlining how we can best meet the challenges of the next century.

Q: Senator Domenici has called for dedicating the vast majority of the non-Social Security surplus to tax cuts. Shouldn't taxes beyond what are needed for Social Security be returned to the American taxpayers?

A:

- First of all, the President is committed to reserving the entire surplus until we have acted to save Social Security. We believe that, working with Congress, we can come up with a reasonable, balanced plan to save Social Security by dedicating half of that surplus to the Trust Fund. But that means having to make some tough choices as well so that we can secure the solvency of the Social Security Trust Fund until 2075.

- We understand that some Republicans want to dedicate part of the surplus to tax cuts. It is important to keep in mind that any money that goes to tax cuts is not available for strengthening Medicare, retiring the national debt, and for creating a new individual pension for every American. Our view is that these priorities are the most critical ones, but we anticipate and welcome a full debate on how best to use the surplus to meet America's long-term challenges.

Q: Does your policy on surpluses mean that no new tax cuts or spending initiatives of any kind can be enacted in 1998?

A:

- No, as long as the tax cuts are paid for dollar for dollar. Our policy means that until we have addressed Social Security reform, any new tax cuts or spending initiatives can be enacted only if they are fully paid for. Tax cuts should not use up the surpluses when those surpluses could be needed for Social Security.

- We are open to tax cuts that meet our principles of fairness, simplicity, economic growth, and not hurting our fiscal discipline. Indeed, our budget includes many new tax cuts and spending initiatives. But these are fully paid for. They do not add one dime to the deficit or reduce surpluses by one dime.

National Debt

Q: Won't this plan increase the national debt?

A:

- Thanks to the steady fiscal discipline that President Clinton has restored to Washington, we are now entering an era of surpluses, and we are paying down the debt for the first time in almost 30 years.

- What this framework does is set aside nearly 90 percent of the $4 trillion in budget surpluses over the next 15 years for long-term challenges: Medicare, Social Security reform, and Universal Savings Accounts. By dedicating that money to long-term challenges instead of spending it today, the President is ensuring that we continue on the path of fiscal discipline.

- In fact, the most meaningful measure of debt -- publicly held debt as a share of the economy -- would decline dramatically under this framework. When President Clinton took office, publicly held debt as a share of the economy stood at more than 50 percent and was headed up. Today, that measure has fallen to about 45 percent, and under this framework it will fall to about 8 percent in the year 2014.

Q: What impact will this plan have on savings?

A:

- The President is fully committed to making sure that we use the surpluses to prepare America for the future. That is why, under this framework, the President dedicates almost 90% of the $4 trillion in surpluses we expect over the next fifteen years to our long-term challenges: strengthening Social Security and Medicare for the retirement of the baby boomers, giving all Americans an opportunity to build their own nest egg for retirement, and paying down the national debt.

- By devoting that money to long-term challenges instead of spending it today, the framework builds on our success in increasing national savings. When President Clinton took office, national savings stood at a low 3.1 percent of GDP in 1992 because of the huge deficits the federal government was running. By restoring fiscal discipline to Washington and leading us into an era of surpluses, the President has helped boost national savings -- which has more than doubled during this Administration to 7.5% today.

- Under the President's plan the budget surplus's contribution to national savings would increase savings by x percent of GDP, and the government's contributions to the USA accounts are expected to add another y percent.

- In addition, by encouraging Americans to set aside money for retirement and giving them help, the President's USA accounts will also help boost personal savings.

Q: Hasn't the CBO said that any plans to use the surplus for anything other than paying down the debt actually reduce national savings?

A:

- The President's framework sets aside almost 90 percent of the surpluses we expect for America's long-term challenges -- Medicare, Social Security, and pensions.

- When President Clinton took office, national savings stood at a low 3.1 percent of GDP in 1992 because of the huge deficits the federal government was running. By restoring fiscal discipline to Washington and leading us into an era of surpluses, the President has helped boost national savings -- which has more than doubled during this Administration to 7.5% today.

- Under the President's plan the budget surplus's contribution to national savings would increase savings by x percent of GDP, and the USA account contributions are expected to add another y percent.

- Higher saving will help us to raise investment and productivity, which will help to prepare for the future -- including the retirement of the baby boomers.

Q: What will happen if CBO has a significantly different forecast than OMB's?

A:

- We have used very conservative economic assumptions as we have done in the past. Our estimates have consistently proven reliable -- we have erred on the side of caution. We think that is the best approach, because it ensures that we do not strengthen Social Security and Medicare by relying on rosy scenarios.

- From some press reports about the work CBO is doing now, it appears that we are not that far apart, but we'll have to wait and see.

<u>**Surplus Transferred to Social Security**</u>

Q: How much of the surplus would be transferred to Social Security?

A:

- Under the President's framework, more than $2.5 trillion of the surpluses we anticipate over the next 15 years would be dedicated to Social Security. By investing a portion of those transferred surplus to achieve higher returns -- just as every state, local, or private pension would -- we can extend the life of the Trust Fund until the mid-point of the next century. We are willing to work with Congress to find a mechanism to ensure that the investments are made by independent private-sector managers without political interference.

Q: Aren't you using surpluses that are generated by Social Security to fund other programs?

A:

- We are not spending a dime of the surplus until we have worked with Congress to pass a plan that strengthens Social Security over the long-term. It is our judgment that we should dedicate half of the surpluses over the next 15 years to do that. But only when we have saved Social Security would we then allocate the rest of the surplus for other long-term challenges -- shoring up Medicare, strengthening our pension system, paying off the debt, and investing in military readiness and other pressing national domestic priorities, such as education and research.

Q: Aren't these transfers to Social Security just an accounting gimmick?

A:

- The President's framework would set aside a full 60 percent of the surpluses to Social Security. By dedicating that money to Social Security and investing a portion of it instead of spending it on some short-term project, we put the Social Security Trust Fund in substantially better shape -- securing its solvency life to the mid-point of the next century.

- This action alone would extend the solvency of the Trust Fund to about 2054. But we need to do more: we want to work with Congress on a bipartisan Social Security plan to extend the life of the Trust Fund until 2075 -- so that every person working today can know that their benefits will be there when they retire.

- We can have an endless debate about the accounting rules, but the bottom line is that by saving the money rather than spending it, we strengthen Social Security.

Q: Does transferring the surpluses to the Social Security Trust Fund have the same effect as buying down the debt?

A:

- In general, yes. National saving, for example, is higher under either approach -- helping us to raise investment and future productivity. Some of the other effects -- for example, on the longer-run unified budget -- may depend on whether the transfer to the Social Security Trust Fund takes the form of bonds or equities.

Q: Your plan would take general revenue and put it toward Social Security. But hasn't the Social Security system avoided general revenue funding over its entire history?

A:

- Not exactly. For example, the system currently receives some of the revenue generated from income taxation of Social Security benefits. Furthermore, the system will face unprecedented challenges with the retirement of the baby boomers.

- We believe that the surpluses can play a key role in helping us to meet that challenge -- by extending the life of the Trust Fund to the mid-point of the next century. We will continue to insist that we not spend the surpluses until we have figured out how to do just that.

Q: What does "reserving" the surplus mean at this point? Aren't you just paying down the debt with the surpluses?

A:

- The President believes that before we do *anything* with the surpluses, we should ensure that Social Security is on a firmer long-run footing. Once we have addressed Social Security reform, the President has outlined what other long-term priorities we should address.

- Because surpluses are building up before Social Security reform is accomplished, they are now being used to buy back publicly held debt from the public.

- Remember that buying down the debt raises saving and reduces the burden on future generations. But reserving the surplus pending Social Security reform also helps to raise saving and reduce the burdens implied by the retirement of the baby boomers. The crucial thing is that we should not waste the surpluses, but instead make sure that we are using them to prepare the country for the next century.

[**Background**: Gross Federal debt amounts to about $5.4 trillion. But some of that is held by the Social Security Trust Fund and other government accounts. Debt held by the public amounts to about $3.8 trillion.]

INVESTING PART OF THE BUDGET SURPLUS IN EQUITIES
January 19, 1999

Q: Isn't it risky to have Social Security depending on the stock market performance?

A:

- There is a small element of risk involved, but any risk will be borne by the government system, not individuals.

- The risk to the government is very small. For example, in 2032, 94 percent of retirement benefits will be paid out of payroll taxes or by redeeming Treasury bonds held by the trust fund. That means that just six cents on every dollar Social Security pays out will depend on stock market performance. In other words, even if the stock market went to zero, Social Security could still pay 94 percent of retirement benefits. If we do nothing, though, in 2032, Social Security will only be able to pay 72 percent of a retiree's current law benefits.

Q: What do you assume about how the stock market will grow in the future?

A:

- We use conservative forecasts for stock market growth in the future. We assume that the stock market will perform in the future how it has in the past (between 1959 and 1996). We do not include the benefits of most of the dramatic run-up in the past few years. Our estimate -- 6.75 percent real returns, on average -- is lower than the Social Security Advisory Council, which assumed 7.0 percent real returns. Gramm-Domenci assume that a 60-40 portfolio would earn 5.5 percent real, 0.3 percent higher than our numbers would imply.

Q: What happens if the stock market does worse in the future than it has over the past few years?

A:

- First, our forecasts are conservative: based on the performance of the stock market over the last few decades. This is a significantly more conservative assumption than that used by the Social Security Advisory Council or other plans that try to achieve higher returns from equity investments.

- Second, whether or not the stock market does worse in the future will have little effect on the Social Security system. For example, in 2032, 94 percent of retirement benefits will come from payroll taxes or interest earned from Treasury bonds -- the safest investment in the world. That means that just six cents on every dollar Social Security pays out will depend on stock market performance. In other words, even if the stock market went to zero, Social Security could still pay 94 percent of retirement benefits.

Q: Isn't it un-American for the Government to be owning private assets?

A:

- We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism -- is in place to ensure investments are made by independent private-sector managers without political interference.

- We believe that it is possible to ensure that investments are made through private-sectors invest ment funds just as private , state, and local pensio n plans do in a way that_
  - -- is independent and non-political
  - -- hires the most efficient private sector management services
  - -- invests using a broad based neutral approach
  - -- minimizes administrative costs

Q: What share of the stock market will the government own?

On average (over the next 40 years), stock owned by the Social Security trust fund will represent about 4 percent of the total stock market.

Q: Won't the government be a major shareholder in corporate America?

The trust funds holding (4 percent of the market) will be half as big as the total holdings of all state and local pension plans (10 percent of the market). They will be roughly as big as the total holdings of Fidelity and other large mutual fund companies.

Q: For how many companies will the government be the largest shareholder?

A:

- We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism is in place to ensure investments are made by independent private-sector managers without political interference.

- If we transfer 60 percent of the surplus to Social Security and invest about 25 percent of that amount in the private market, our estimates suggest that Social Security will own about 4 percent of the stock market -- which is less than half the 10 percent of the stock market owned by state and local pensions and about the same amount managed by Fidelity (4 percent).

Q: What is the maximum share of the stock market that the government will own?

A:

- Again, we want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism -- like the Fed -- is in place to ensure investments are made by independent private-sector managers without political interference.

- Our estimates suggest that at its peak -- in 2020 -- Social Security will own about 6 percent of the stock market -- which is significantly less than the 10 percent of the stock market owned by state and local pensions.

Q: What do these calculations assume?

A:

- The Social Security Actuaries calculated these numbers based on two assumptions: (1) that the ratio of stock market valuation to Gross Domestic Product (GDP) will remain the same as it is today over the long run; and (2) that the stock market will perform in the future how it has in the past (between 1959 and 1996, so we do <u>not</u> include the benefits of most of the dramatic run-up in the past few years).

Q: How do you intend to protect these investments from political interference?

A: We want to work in a bipartisan way to invest these funds in a way that is

-- is independent and non-political
-- hires the most efficient private sector management services
-- invests using a broad based neutral approach
-- minimizes administrative costs

Q: **How will corporate governance issues such as proxy voting be handled?**

A:

- We want to work in a bipartisan way to craft a Social Security plan that addresses the *all* important corporate governance issues.

Q: Where will these funds be invested?

A:

- We want to work these sort of details out with Members of Congress, but we do believe that the funds should be invested in a broad and neutral way by the most efficient private-sector managers in a way that is both independent and without political interference.

Q: Will the funds be invested in international stocks or only in domestic ones?

A:

- Again, this is the sort of detailed question that we need to work out with Congress.

Q: What will prevent politicians from legislating that certain industries, such as tobacco cannot be invested in or that certain activities deserve investment (building low-income housing) or that firms that move jobs overseas or hire child labor do not deserve to be invested in?

A:

- We want to work in a bipartisan way to create an institution which is independent and free of political interference and that uses the most efficient private-sector managers to achieve higher returns for Social Security.

- We believe that the experience of the Federal Reserve shows that it is possible for Congress to create institutions that have minimal political interference. We need to draw on the experiences with the Fed to ensure whatever institution is created to invest Social Security's funds will do so without interference from the executive or legislative branches of government.

Q: Won't there be large administrative costs in this system -- Social Security has very low administrative costs.

A:

- No. This type of proposal should have very low administrative costs -- which is one of the reasons the President supports this concept.

- We believe that by having a Fed-like institution hire the best private-sector managers we will ensure that the competition between the managers will help keep administrative costs very low.

- Estimates suggest that costs could be *only* one-half of one basis point. Therefore, returns will not be going into the hands of Wall Street managers -- they will go to Social Security beneficiaries.

- Moreover, the federal government's Thrift-Saving Plan already puts out for private management a pool of capital of this type, and their costs are very, very, low -- only about 0.4 basis points, or .004% of assets. Thus, for every $1,000 in assets under management, the TSP pays only about 4 cents per year in management fees.

Q: What share of Social Security's portfolio will be in stocks and what share will be in special-purpose Treasury bonds?

A:

- To ensure that Social Security's portfolio is conservatively invested, we will limit the share of Social Security invested in equities to 18 percent. That means that, at most, 18 percent of Social Security's funds will be invested in stocks, while -- at minimum -- 82 percent will be invested in special-purpose Treasury bonds.

Q: Would the Trust Fund investments contemplated under this plan affect prices in the stock market?

A:

- First of all, one of the most important objectives with respect to investing part of the surplus in the stock market is to establish a process that is independent, insulated from political influence, and aimed at securing the best return for the Social Security system.

- Provided that a process of that type is established, the impact on stock prices -- if any -- should be modest, because the scale of investment contemplated here is small relative to the size of the market, and is phased in over a period of many years.

  - Over the next 15 years, if the President's proposal is adopted, purchases of equities by the Social Security system would average about $30 billion per year, measured in today's dollars. By way of comparison, net inflows into equity mutual funds have averaged about $250 (check) billion per year over the past NNN years.

  - At the end of the initial 15-year phase-in period, Social Security's holdings of equities will probably amount to less than 5 percent of the overall stock market. By contrast, state and local governments already hold about 10 percent of the stock market in their pension plans as of today.

- Moreover, if there were any sizable move in stock prices in response to the Social Security purchases, businesses would probably issue more stock and less debt; and individuals would probably choose to hold less stock and more debt. Both of these changes would work toward ameliorating any impact of the initial stock purchases by the Social Security system.

Q: If the surpluses are only invested in publicly traded equities, won't this be unfair to small companies?

A:

- One of the issues that we need to work out with Congress is whether the surpluses are only invested in very broad-based indices, so that many small-cap companies will be included in the pool.

- It is true that non-publicly traded companies would not be included, but the Federal government can't force a private company to sell shares publicly, and it would be intrusive to try to do so.

- This does not mean, however, that the privately held companies will be denied capital, because capital is mobile and will migrate to other uses as the government buys publicly-traded shares. Shares of smaller firms may become more attractive.

Q: Isn't this just another form of taxation?

A:

- Because the Trust Fund is "owned" by current and future participants in Social Security, the ultimate owners of the Trust Fund's equity holdings will be the American people. We believe that investing in equities represents an appealing way to help preserve the Social Security system for its ultimate owners, and represents the best stewardship of the resources they have entrusted to us. The alternatives for preserving the system – reducing benefits or a direct tax increase – are much less appealing.

Q: Shouldn't the government use Trust Fund assets to promote urban America / the environment / education?

A:

- The purpose of equity investment of the Trust fund is to protect promised Social Security benefits. We believe that it would be very risky to allow assets to be targeted to specific causes or specific sectors of the economy, or to allow for the introduction of political considerations into the investment of surpluses. We want to work with Congress to ensure that we find a mechanism to provide layers of protection against this.

Q: Are you going to use the trust funds to support share prices in case of a market downturn?

A:

- We believe that the trust fund should invest in a broad and neutral manner, and therefore not have discretion to "time" the market.

- It would be irresponsible to put surpluses at risk in some ill-advised scheme to try to chase after the rainbow of higher stock market returns. What is important is that the surpluses be invested in an independent, non-political manner that focuses on the goal of protecting promised Social Security benefits.

Q: Will you sell stock to improve the budget picture?

A:

- Again, the investment managers who will act on behalf of the Social Security system will have no discretion as to the timing of their purchases or sales of equities. The stock market investments we propose would be pre-committed: Remember that we are proposing to transfer half of the currently projected unified surpluses to the Social Security system over the next 15 years, and -- provided a satisfactory institutional structure can be devised of the type outlined above -- we have further proposed that about one-quarter of that amount be invested in stocks.

- Stocks will be redeemed only as needed to pay benefits. This approach leaves no room for discretion as to purchases or sales.

Q: What would happen during a market downturn? Would the government guarantee the existing benefit structure, by raising taxes? Or would social security benefits be cut?

A:

- The risk introduced by investing part of the surpluses in the stock market will be modest, for two main reasons. First, in the future, the Social Security will continue to pay the bulk of benefits out of current payroll taxes. Only a portion of benefits will be paid for by the Trust Fund, and only a portion of the Trust Fund will be invested in equities.

- Second, the Trust Fund will be in an position to smooth through the ups and downs of the market. Although the Trust Fund will pay for some benefits, only a portion of the Trust Fund would be invested in equities. Therefore, benefits could be paid out of other assets until the stock market recovered. The majority of the Trust Fund would still be invested in the same special-issue government bonds that currently make up the Trust Fund.

- [NEED TO CHECK] There has been no time over the last 100 years when a stock market decline was so severe that it would have posed any threat to benefits under a system of the type we are describing. Even if the worst came to pass, and there was a significant and lasting decline in equity values, this loss would be amortized (in the form of reduced benefits) over an extended future time period.

Q: What has been the experience of state and other governments that have invested in equities?

A:

- Currently, over 45 states (may be 50 states – Econ Policy is checking) invest some portion of their pension funds in equities. Most state boards of trustees appear able to resist politically or socially driven investments, because they have clear fiduciary responsibilities.

- Canada recently decided to invest the Canada Pension Plan (CPP) trust fund in equities, property, and foreign assets. Canada's arms-length board of trustees has fiduciary responsibility to serve CPP contributors' and beneficiaries' interests exclusively. Canada has named a board, but they have yet to undertake any equity investment.

- The Thrift Savings Plan (TSP) for federal employees is managed by the Federal Retirement Thrift Investment Board (TIB). The TIB contracts with Barclays Global Investment to manage the non-Treasury investments. The TIB delegated to Barclays the right to vote the proxy ballots. Moreover, the TIB has not changed any of its investment policies in response to political concerns.

TOUGH CHOICES
January 19, 1999

Q: What types of options are on the table to extend the trust fund's life to 75-years?

A:

- President Clinton believes that we must work together in a bipartisan way to make the tough, but achievable, choices to save Social Security through at least 2075 because the only way that these tough choices will be made is if we work together -- across party lines. Our goal is to ensure a 25-year old who has just entered the workforce will know that even if he or she lives until 100, the system will be able to pay its promised benefits.

- I am not going to get into specific options that could be used to extend the life of the trust fund for at least 75 years, but I will say that we will work with Members of Congress to determine which we can agree upon

Q: Would the President consider raising the retirement age (similar questions on COLAs, tax increases, benefit cuts)?

A:

[Framework for Answer]
- The President believes that rather than ruling in or out specific elements, we should work together with Democrats and Republicans to craft a package that meets the President's principles; strengthening Social Security in a way that maintains universality and fairness, ensures that Social Security continues to provide a benefit people can count on, protects low-income and disabled beneficiaries, and maintains our fiscal discipline.

[For Retirement Age]
- Changing the retirement age is clearly a controversial option that is being actively debated by many people in the Social Security reform debate.

[For COLA]
- The issue of whether we should change the COLAs in order to better reflect the cost-of-living is a legitimate one, but one that needs to resolved by experts. The Administration is strongly committed to using the most technically accurate index.

[For Tax Increases]
- The President has said very clearly that he believes that we do not have to increase the payroll tax <u>rate</u> as part of a comprehensive plan.

Q: Are you trying to achieve 75-year solvency or are you trying to do more?

A:

- Our goal is to save Social Security until <u>at least 2075</u>. That means that if we save Social Security for a longer period of time, we will be very pleased.

Q: If we only do 75 years, won't we have to do reform again in a few years?

A:

- If we save Social Security until <u>at least 2075</u>, we will ensure that a 25-year old who has just entered the workforce will know that even if he or she lives until 100, the system will be able to pay its promised benefits.

- We only transfer half of our projected budget surpluses to Social Security for <u>15 years</u>. If -- sometime in the next century -- reform is needed again, policy makers will be able to evaluate the best steps to take at that point to strengthen Social Security further.

Q: Why didn't the President show leadership by proposing specific benefit cuts and tax increases?

Q: Isn't the President proposing all of the easy good news and leaving the pain for later?

A:

- Over the past year, the President has led by changing the debate on Social Security in two important ways: first, by reserving the surplus until Social Security is reformed and second, by striving to create a climate conducive to bipartisan Social Security reform by not attacking specific plans to reform the system.

- In his State of the Union address, the President put forward a framework to keep Social Security safe for 50 years -- now he wants to work together with Members of Congress from both parties to make the touch choices to keep Social Security safe until at least 2075. And the only way these tough, but achievable, choices will be made is if we do it together -- across party lines.

Q: What kind of process do you envision to try to get reform done?

A:

- We will be consulting with the Leadership and Members of Congress in the days ahead on how best to proceed. But we fully intend to begin a constructive bipartisan process as soon as possible.

Q: Would the President be satisfied with protecting Social Security for 50 years?

A:

- No. As the President said in his State of the Union address, his goal is to save Social Security for at least 75 years.

REDUCING THE POVERTY RATE OF ELDERLY WOMEN
January 19, 1999

Q: What does the President plan to do to reduce poverty among elderly women?

A:

- In his State of the Union address, the President said that his goal was to craft a plan to reduce the poverty rate among elderly women -- particularly widows. In 1997, the poverty rate of elderly widows was 18.0 percent -- nearly four times higher than the 4.6 percent rate for elderly married women.

- The President wants to work with Members of Congress to find the appropriate proposal -- but there are clearly ways to strengthen Social Security and significantly lower poverty among elderly women.

Q: Why focus on widows rather than the elderly poor in general?

A:

- Social Security has dramatically reduced the rate of poverty among the elderly. The elderly poverty rate has fallen from more than 35 percent in 1959 to 10.5 percent in 1997 -- as low as it's ever been.

- However, the poverty rate among elderly widows is particularly high: 18.0 percent in 1997 -- nearly four times higher than the 4.6 percent rate for elderly married women.

- Moreover, elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.

- For 25 percent of unmarried women, Social Security is their only source of income, compared to 9 percent of married couples and 20 percent of unmarried men.

- And without Social Security benefits, the elderly poverty rate among women would have been 52.2 percent and among widows would have been 60.6 percent.

Q: Why is widow poverty higher than poverty among married women?

A:

- There are four reasons why widow poverty is higher than poverty among married women:

    1. *Declines in Social Security Benefits at Widowhood.* Widow benefits vary from

50 to 67 percent of benefits for a married couple. The official poverty thresholds imply that a widow needs 79 percent of a couple's income to maintain her pre-widowhood consumption level. Thus, women who are in couples just above the poverty line, can fall below the line when they become widowed. Empirical studies suggest that this factor can explain as much as half of the excess in poverty among widows.

2. *Pre-Widowhood Differences in Economic Status.* Poorer husbands typically do not live as long as richer husbands. Therefore, at a given age, women who are widowed are more likely to have been poor throughout their lives than are the women whose husbands have not yet died. Empirical studies conclude that this fact explains around one third of the difference in poverty rates between married women and widows.

3. *Declines in Pension Income at Widowhood.* Research using data from the 1970s implies that roughly 15 percent of the gap in poverty between widows and married women can be explained by the loss of the husband's pension income. However, these data predate the Retirement Equity Act of 1984 which was designed to encourage the choice of a pension with survivorship rights.

4 *Declines in Income from Other Assets at Widowhood.* Some assets may be bequeathed to people other than the widow or used for medical or other expenses when the widow's spouse dies. Empirical evidence suggests that the decline in other asset income is responsible for about 10 percent of the difference in poverty rates between widowed and married women.

Q: Does Social Security provide a good deal for women?

A:

- Women face greater economic challenges in retirement for a number of reasons: first, women tend to live longer: a woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81; second, women have lower *lifetime* earnings than men do; and third, women reach retirement with smaller pensions and other assets than men do.

- However, the current Social Security system has a number of features that help women meet these challenges.

  1. Social Security provides an inflation-protected benefit that lasts as long as you live. Since women tend to live longer than men, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit.

2. The progressive benefit formula provides a higher replacement rate for workers with lower earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.

3. Social Security provides extra benefits to spouses with low lifetime earnings. The Social Security spousal benefit helps many women, even if they did not work at all outside the home.

4. Social Security provides benefits to elderly widows; 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse.

5. Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

Q: Won't this be very expensive?

Q: Won't adding new benefits make it harder to achieve the 75-year goal?

A:

- The President's goal is to strengthen Social Security for the 21st century. Part of that goal is ensuring that we ensure Social Security is safe for at least 75 years, but part of that goal is also to ensure that Social Security is the strongest safety net possible.

- The President and Vice President believe strongly that taking steps to address poverty among elderly women -- especially widows -- will make the Social Security system stronger and is thus worth it.

Q: Won't widow poverty disappear on its own as more and more women retire who have had substantial labor market experience over their lifetimes?

A:

- Even with increased labor market experience among women, Social Security will continue to be very important. While it is true that the percentage of women receiving benefits based solely on their own earnings history is expected to rise from 37 percent today to 60 percent in 2060, this means that 40 percent of women will continue to receive benefits based on their husband's earnings.

- Women are expected to continue to have longer life expectancies than men -- and thus, Social Security will continue to remain important to them. The difference in life expectancy at age 65 between men and women will fall only slightly under Social Security Administration projections from a gap of 3.6 years today to 3.4 years in 2030. Thus, in the future, women will continue to depend on Social Security for more years than men will.

MEDICARE

January 19, 1999

<u>Surplus for Medicare</u>

Q: Why not Medicare first?

A:

- Both Social Security and Medicare face significant demographic challenges. And the President believes that we must address <u>both</u> issues to ensure retirement security for future generations.

- However, the bipartisan Medicare Commission is still examining the program's long-run challenges. Once the Medicare Commission reports back this spring, that will be a top priority too and we hope our plan with new resources for Medicare will help achieve broader, bipartisan reforms.

Q: Why not more for Medicare?

A:

- This President's plan creates an important safeguard for Medicare -- it would extend the life of its Trust Fund to 2020 -- the largest single improvement in its history. The President underscored his preference that the Medicare Commission and Congress include these dedicated dollars as part of broader reforms to modernize and better prepare Medicare for the health care needs of the 21st century.

Q: Isn't this a gimmick to prevent Republicans from giving Americans a tax break?

A:

- Absolutely not. This proposal recognizes the indisputable financing crisis that faces Medicare and takes an essential step towards solving it. It is true that some may value tax cuts over Medicare, but even the most ardent supporters of tax cuts do not contest that Medicare presents one of the greatest financing challenges in the next century.

Q: Isn't this just giving more money to the elderly?

A:

- In fact, the same generation -- the baby boomers -- that has helped create this surplus is going to need it when they retire and are covered by Medicare. By taking this action, the President is ending the need in the foreseeable future to look for new revenues from younger generations.

Q: When comparing this use of the surplus to marriage penalty relief, aren't you helping more wealthy people?

A:

- No. First, the elderly tend to have less income than working married couples. The Congressional Budget Office found over 80 percent of couples benefitting from marriage penalty relief would have income above $50,000 -- about 75 percent of the elderly report income of less than $25,000. Second, in the absence of immediate action, both the younger and older generations would almost inevitably pay more in the future. If Medicare becomes insolvent, the pressure to both raise beneficiary payments and increase taxes on working families would likely be overwhelming.

Q: What does it mean, that these funds are "protected"? In a unified budget, can't Congress use the Medicare Trust Fund surplus to offset other spending priorities or tax cuts?

A:

- The President's framework would prohibit the funds being transferred to the Medicare Trust Fund from being allocated to other uses. We look forward to working with Congress to develop budget rules to ensure that fiscal discipline in maintained.

<u>Prescription Drug Benefit</u>

Q: Is the President intending on proposing a prescription drug benefit for Medicare?

A:

- The President believes that any proposal to provide a long-overdue prescription drug benefit should take place within the context of broader Medicare reform. He does believe, however, that a meaningful prescription drug benefit for all beneficiaries can and should be included in any such proposal. We have learned that successfully achieving meaningful Medicare reform can only happen in a bipartisan fashion. For this reason, we look forward to working with members on both sides of the aisle to add this important benefit this year.

Q: How much would a prescription drug benefit cost? Would it be paid for from the surplus?

A:

- The President did not propose a Medicare prescription drug benefit -- he committed to working with Congress on such a proposal after the Medicare Commission report, which is due on March 1. At that time, when a full range of reform options are on the table, the costs as well as funding for this benefit can be figured out.

Medicare Commission

Q: Isn't this getting ahead of the Medicare Commission?

A:

- No. The Medicare Commission has spent all of its time to date examining complicated and important ideas for restructuring Medicare. It has not assessed ideas for new revenues for Medicare -- although the need for such revenues is evident from the sheer size of the problem and has been affirmed by virtually every independent health policy expert. The President's proposal has great potential to assist the Commission to make proposals to modernize the program without gimmicks or unrealistic growth rates that would new revenues. Indeed we think it will make a positive contribution toward achieving bipartisan consensus on this important issue.

Q: By putting over $600 billion dollars of taxpayer-produced revenue into Medicare, aren't you just throwing more money at the problem without any long-overdue structural reforms?

A:

- Virtually all independent experts confirm that demographics and health costs require more financing. All the structural reforms in the world won't change this fact. However, the President cannot be more clear about the fact that he wants this proposal to be considered in the context of broader reforms.

Q: Doesn't this give Democrats in Congress a pass on doing real Medicare reform?

A:

- Absolutely not. As experts like Bob Reischauer have said, Medicare reform is not only about solvency -- it is about making Medicare more efficient, equitable, and adequate in terms of benefits. This move by the President should allow the Medicare Commission and Congress in general to focus on these critical objectives rather than worry about Trust Fund solvency alone.

Q: Why not just raise taxes, as your Medicare Commissioner Bruce Vladeck recommended?

A:

- The President's approach is more progressive than raising payroll taxes. Today's surplus comes from the strength of the economy and the restraints on government spending that the President and Congress have imposed. In fact, it is mostly generated by the same baby boom generation whose retirement we are preparing for.

Q: What is your plan for reforming Medicare? Do you support the Medicare voucher proposal being put forth by the Commission?

A:

- The President and the Congress created the Bipartisan Medicare Commission in recognition of the complexity of addressing Medicare's problems. He believes it would be premature and inappropriate to contemplate any plan prior to the conclusion of the Commission's work.

Follow-up: What do you think of the premium support / voucher proposal that the Commission is considering?

A:

- "Premium support" is actually not a voucher program -- it contains a guarantee of a defined set of benefits, which is unlike the voucher proposals that the President has opposed in the past. It is a concept worth considering but, as with any initiative, the devil is in the details. Depending on how it is constructed, a premium support program could strengthen -- or alternatively could weaken -- the Medicare program. We look forward to hearing more about exactly what the Commission has in mind over the next few weeks.

Q: The Medicare Commission is discussing raising the Medicare eligibility age from 65 to 67 -- making it consistent with phase up for Social Security. What is the

Administration's position on this?

A:

- As we have consistently stated, we would be seriously concerned about raising the Medicare eligibility age, particularly in the absence of a mechanism to assure this does not increase the number of uninsured Americans. Recent data reaffirm Americans between ages 55 and 65 are the most rapidly growing group of uninsured Americans and are some of the hardest to insure. Americans ages 65 to 67 could face similar problems. But we, of course, look forward to seeing any analysis of this issue developed by the Commission.

Follow-up: Would your Medicare buy-in proposal make it possible to raise the eligibility age?

A:

- The President's plan is designed to assure that vulnerable Americans ages 55 to 65 have access to insurance, but it does not subsidize their health care costs. By contrast, people over 65 in the Medicare program receive subsidies for much of their medical costs. Therefore, any move to increase the eligibility age would have to be combined with additional policy to assure the availability of access to affordable coverage.

Q: What is your position on [graduate medical education reform, Medigap reforms, etc.] that are being considered by the Commission?

A:

- The President and the Congress created the Bipartisan Medicare Commission in recognition of the complexity of addressing Medicare's problems. He believes it would be premature and inappropriate to contemplate any specifics prior to the conclusion of the Commission's work.

Miscellaneous

Q: Given the huge new infusion of funds to the Trust Fund, why is your budget proposing $8 billion in hospital cuts?

A:

- The Administration has an ongoing fiduciary and management responsibility to ensure that Medicare payments are fair, adequate and not excessive. The President's proposal for the surplus in no way changes this responsibility. For this reason, the President has already announced a multi-billion dollar, anti-fraud, waste and abuse Medicare program integrity proposal. His budget will contain additional proposals.

Q: If you wanted this proposal to be well received by both parties, shouldn't you have consulted with them prior to unveiling it?

A:

- This is the beginning of a process. The President is unveiling a proposal that he thinks addresses numerous challenges facing an aging America. He well understands that the next steps require significant consultation and bipartisan collaboration, and he hopes that the initiative that he is unveiling today will create an environment to that end.

ALTERNATIVE APPROACHES TO SOCIAL SECURITY REFORM
January 19, 1999

Q: Did the President rule out an individual account as part of Social Security?

A:

- The President will examine any proposal in the context of comprehensive reform that is consistent with his five principles. There are difficult issues with individual accounts that have not yet been worked out -- for example, what are the administrative costs, what are the risks to people, and would they would provide beneficiaries a solid progressive benefit that they could count on. Also, how do individual accounts relate to the non-retirement aspects of Social Security, specifically disability and survivor benefits.

Q: **Did the President rule out a carve out approach?**

A:

- Yes, the President has ruled out "carve-out" individual accounts. As the President said in his State of the Union address, we should not divert Social Security payroll taxes into untested and risky individual accounts.

Q: Isn't your USA account simply an individual account plan under another name?

A:

- No. The President has spoken eloquently over the past year about the need to strengthen each of the three legs of the retirement security stool: Social Security, pensions, and personal savings.

- Our Universal Savings Accounts (USAs) proposal would help individuals who do not have pensions save for their retirement -- strengthening the pension and personal savings legs of retirement security.

Q: Aren't you trying to have it both ways by opposing individual accounts as part of Social Security, yet proposing them outside of Social Security?

A:

- No, we are not trying to have it both ways. USA accounts are not part of Social Security -- they will help strengthen our pension system and private savings. The President's goal is to ensure retirement security for future retirees and the proposal he put forward in his State of the Union address strengthens the three legs of retirement security: Social Security, pensions, and private savings.

Q: Are you against a plan like Martin Feldstein's that invests through individual accounts but uses the proceeds to help the trust fund?

A:

- There are serious difficult issues with individual accounts that have not been worked out -- for example, what are the administrative costs, what are the risks to people, and would they would provide beneficiaries a solid progressive benefit that they could count on.

- The President will examine any proposal in the context of comprehensive reform that is consistent with his five principles.

ELIMINATING THE EARNINGS TEST

January 19, 1999

Q: **Hasn't Social Security always been a program only for people who are retired? Why change that?**

A:

- When Social Security was first set up, the nation was in the midst of the Great Depression. Policy-makers were concerned that older workers would impede the labor market prospects of younger workers -- a concern that we certainly don't share today, with an unemployment rate of 4.3 percent.

- Over time, as policy-makers realized that elderly workers had an important role to play in the labor market, the rules for the earnings test have been liberalized.

  - For example, the 1950 Amendments then raised the exempt amount and excluded beneficiaries aged 75 and over from any limit whatsoever.

  - Later statutes allowed partial rather than full reduction of benefits (1954 and 1972 Amendments), exempted those aged 70 and over (1954 and 1977 Amendments), indexed the exempt amounts (1972 Amendments), and created separate limits for those under and over age 65 (1977 Amendments).

  - In 1996, working with both Democrats and Republicans in Congress, President Clinton signed into law annual increases in the earnings limit for those between 65 and 70. Between 1999 and 2002, the limit for workers in this age range will increase from $15,500 to $30,000.

- At this point, the earnings test is a tattered relic of a past era -- and is unnecessary in our dynamic economy. Administering the test is complicated, and it confuses beneficiaries while also discouraging them from work. A recent academic study has suggested that eliminating the earnings test could raise labor supply among elderly workers by over 5 percent.

Q: **Won't eliminating the earnings test benefit higher-income people?**

A:

- Not necessarily. Under the earnings test, benefits are reduced while working but then subsequently increased using an actuarial adjustment. Those who claim that eliminating the earnings test will benefit upper-income workers are only looking at the first part of that equation and are ignoring the second part.

- In fact, it is possible that upper-income people gain on average from the current system, and therefore that its elimination will be progressive. The reason is that upper-income people tend to have longer life expectancies than average. They therefore collect the subsequent benefit increase -- which is calculated assuming *average* life expectancy -- for longer than average, potentially producing a gain.

Q: **What would the long-run actuarial effect be? Won't this hurt the Social Security system?**

A:

- Since benefits forgone are given back through subsequent actuarial adjustments, eliminating the earnings limit would have almost <u>no effect</u> on the long-run actuarial balance of the OASDI program. According to the Social Security actuaries, removing the earnings test for all retirees would <u>not</u> significantly affect the 75-year actuarial imbalance. The precise impact -- whether it is 0.01 percent of payroll or 0.00 percent of payroll -- depends on the details of how the earnings test is eliminated. But it's clear that the effects will be minimal.

Q: **What are the benefits of eliminating the test?**

A:

- *Eliminating the test could encourage work among the elderly.* Most beneficiaries view the earnings test as a tax on their work -- and eliminating it should therefore encourage more of them to work. A recent academic study from the National Bureau of Economic Research (NBER) concluded that eliminating the earnings test could increase labor supply among elderly beneficiaries by 5.3 percent. [Leora Friedberg, "The Social Security Earnings Test and Labor Supply of Older Men," in James Poterba, *Tax Policy and the Economy*, 1998.]

- *Eliminating the test would reduce the administrative burden on SSA.* The Social Security earnings test involves a very complicated set of rules regarding exempt earnings amounts, the benefit reduction rate, and subsequent benefit adjustments. Administering the complicated rules for the earnings test imposes a significant administrative burden on the Social Security Administration. As leading scholars Gene Steuerle and Jon Bakija argue , "Eliminating the earnings test...[would] greatly simplify the administration of the system, since the earnings test is the largest source of errors in benefit calculations." [Eugene Steuerle and Jon Bakija, *Retooling Social Security for the 21st Century*, 1994, pages 228-229.]

- *These benefits do not come at any long-term cost.* According to the Social Security actuaries, removing the earnings test for all retirees would not significantly affect the 75-year actuarial imbalance.

Q: **Would you favor eliminating the earnings test even in the absence of a comprehensive deal on Social Security?**

A:

- Our goal is to get a comprehensive Social Security plan. I don't want to answer hypothetical questions.

Q: **Isn't it expensive? How will you pay for it?**

A:

- Let's separate two costs: one for Social Security, and the other for the budget.

  Social Security Actuarial Balance: Since benefits forgone are given back through subsequent actuarial adjustments, eliminating the earnings test would have almost no effect on the long-run actuarial balance in Social Security.

  Budget: Over the long run, eliminating the earnings test would similarly have no effect on the budget. In the short run, any near-term costs would need to be offset in the context of putting together bipartisan, comprehensive reform.

Q: Do you intend to eliminate the earnings test at all ages, or just above the normal retirement age?

A:

- That remains to be determined. The President is determined to eliminate artificial barriers to work for elderly Americans, but some analysts have raised concerns about eliminating the earnings test below the normal retirement age. We will be carefully studying that issue.

Background:

- Some analysts are concerned that eliminating the test below the normal retirement age will induce even more beneficiaries to elect early, reduced benefits -- potentially causing problems for those beneficiaries later in life when they must live on reduced benefits. We will be carefully studying that issue, and determine whether the earnings test should be eliminated only above the normal retirement age, or both above and below it.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JAN-1999 13:56:28.00

SUBJECT: Final Social Security Paper

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

TEXT:
---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on 01/19/99 01:58 PM ---------------------------

Jonathan Orszag
01/19/99 01:38:04 PM
Record Type: Record

To: Douglas W. Elmendorf/CEA/EOP
cc:
Subject: Final Social Security Paper

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D84]MAIL44041491I.036 to ASCII,
The following is a HEX DUMP:

SAVING SOCIAL SECURITY NOW AND MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security by:

- Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to the Social Security system.
- Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.
- Keeping Social Security solvent until 2055.
- Calling for a bipartisan effort to make the hard-headed but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:
  - Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.
  - Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President believes that these new resources should be used to help achieve broader, bipartisan reforms -- which should include a prescription drug benefit.
- **Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 11 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, the government will provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each additional dollar an individual puts voluntarily into his/her USA account -- with larger matches going to lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national

domestic priorities, such as education and research.

SAVE SOCIAL SECURITY NOW: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward A Framework To Strengthen Social Security Now. Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, if we do nothing, the Trust Fund will be exhausted and Social Security will have only enough resources to cover 72 cents per dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

Use the Budget Surplus To Save Social Security Now

- **"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

- **62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to Social Security.

Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security

- **Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise A Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and includes a mechanism to ensure that investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.

    - To achieve higher returns for Social Security, less than one-quarter of the transferred surpluses will be invested in the stock market.

Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075

- **President's Framework Keeps Social Security Solvent Through 2055.** By transferring 62 percent of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state or local government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

- **Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable choices to save Social Security through at least 2075.

Publicly Held Debt Will Fall To Lowest As Share of GDP Since 1917

- **Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the debt held by the public quadrupled, rising from $785 billion in 1981 to $3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 26 percent in 1981 to 50 percent in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to about 45 percent.

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to less than 10 percent in 2014 -- its lowest level since 1917.

Reduce Poverty Among Elderly Women -- Particularly Widows

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are especially high: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

- **President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

Eliminate the Out-Dated and Confusing Earnings Test

- **President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

- **Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing relic of a past era. It discourages the elderly from working. It is administratively complicated; administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:

STRENGTHENING MEDICARE FOR THE 21st CENTURY

RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE, EXTENDING THE LIFE OF THE MEDICARE TRUST FUND UNTIL 2020.

- **We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed to longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

- **Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- \$650-\$700 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.

- **New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to provide efficient health care to the elderly and people with disabilities in the 21st century.

UNIVERSAL SAVINGS ACCOUNTS (USAs)

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.

- **USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** To help supplement Social Security, the President proposes to create USA accounts to help strengthen two legs of retirement security: personal savings and pensions. Under the President's framework, we will reserve 11 percent of the projected surpluses over the next 15 years -- averaging about $33 billion per year -- to create Universal Savings Accounts (USAs), so that every working American can build wealth and a nest egg for retirement.

- **We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured So That They Are Progressive And Help Working Americans Save for Retirement.** President Clinton believes the government should provide most Americans with a flat contribution. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger percentage matches going to lower-income workers. However, we want to work with Members of Congress and pension and personal savings experts, to ensure that USA accounts build on the current private-sector pension system, are progressive, and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be determined later.

MILITARY READINESS AND OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES, SUCH AS EDUCATION AND RESEARCH.

- **Ensuring That America's Military Continues to be Ready for the Challenges of the 21st Century.** Early in January, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. President Clinton believes this approach will provide the resources to meet his proposed detailed blueprint for military readiness.

- **Ensuring We Meet Other Critical Investments In America's Future.** In addition to military readiness, the setting aside of 11 percent of the projected surpluses -- nearly $500 billion -- will allow America to meet its other critical investment needs, such as education and research.

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Alice H. Williams at 15:27:35.00. Subject: Letter for Ted's scrapbook. (2 pages)	01/19/1999	Personal Misfile

COLLECTION:

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

FOLDER TITLE:

[01/15/1999 - 01/21/1999]

2013-0723-F
ab1291

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

CREATION DATE/TIME:20-JAN-1999 18:58:15.00

SUBJECT: ERP. POTUS SOTU talking points on trade & WTO Round

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

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

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

CC: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
Find below the wording on trade and the WTO Round from the POTUS SOTU talking points. Nouriel

Global Trade Agenda
The President called for a new consensus on trade that expands America,s opportunities in the global economy while ensuring that expanded trade benefits all citizens by promoting prosperity, respecting worker rights, and protecting the environment. He asked Congress to join him in this new consensus by granting traditional trade negotiating authority to pursue an ambitious trade agenda. The President called for the launch of a far-reaching new WTO global trade Round to shape the world trading system in the 21st century.

Janet L. Yellen
01/20/99 06:09:51 PM
Record Type: Record

To: Jeffrey A. Frankel/CEA/EOP
cc: See the distribution list at the bottom of this message

Subject: Re: SOTU facts into ERP

Chad and I have inserted in Chapter 1 a reference to the President's call for "traditional trade negotiating authority and his call for a new WTO round. I wouldn't go on at great length about this in the international chapters although it may still be appropriate to have a reference there as well.

Message Copied
To:

Michele Jolin/CEA/EOP
Nouriel Roubini/CEA/EOP
Matthew R. McBrady/CEA/EOP
Rebecca M. Blank/CEA/EOP
James M. Treadway/CEA/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 13:39:30.00

SUBJECT: Re: new title for Chapter 6

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

TEXT:
I slightly prefer Jeff's title to the original and would be happy to have you try it out on Treasury. But I would not want to argue about it.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 18:11:28.00

SUBJECT: Re: SOTU facts into ERP

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

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

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

CC: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
Chad and I have inserted in Chapter 1 a reference to the President's call for "traditional trade negotiating authority and his call for a new WTO round. I wouldn't go on at great length about this in the international chapters although it may still be appropriate to have a reference there as well.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 13:27:14.00

SUBJECT: does not include anything from Doug

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.D30]MAIL43777602Y.036 to ASCII,
The following is a HEX DUMP:

CHAPTER 1

Meeting Challenges and Building for the Future

THE ECONOMIC POLICIES of the past 6 years have nurtured and sustained what is now the longest peacetime expansion on record. By December 1998, the 93rd month of this expansion, 18.8 million jobs had been created (17.7 million of them since January 1993). More Americans are working than ever before, the unemployment rate is the lowest it has been in a generation, and inflation remains tame. This record of achievement is especially noteworthy in light of the troubles experienced in the international economy in 1998. The United States has not entirely escaped the effects of this turmoil--and calm has not been restored completely. But the fundamental soundness of the U.S. economy prevented it from foundering in 1998's storms.

A strong policy foundation was laid in 1993 when the President put in place an economic strategy grounded in deficit reduction, investment, and opening markets abroad. Since then, the deficit has come down steadily, and in 1998 the Federal budget was in the black for the first time since 1969. This policy of fiscal discipline, together with an appropriately accommodative monetary policy by the Federal Reserve, produced a favorable climate for business investment and a strong investment-led recovery. While reducing overall Federal government spending as a share of GDP, the Administration has pushed for more spending in critical areas such as education and training, children, the environment, health care, and research and development. And although international economic conditions have led to a dramatic widening of the trade deficit, the United States has nevertheless been successful in expanding its real exports by almost 8 percent per year since 1993.

Clearly, there is much to be proud of in the economic accomplishments of the past 6 years. But as world economic events over the past year have reminded us, our prosperity is threatened when the global economy does not function well. Our immediate challenge on the international economic front is to help ensure that the global economy rebounds and begins to regain strength. Our longer run challenge going into the 21st century will be to continue the process of developing international arrangements under which countries can embrace opportunities to grow and develop through international trade and investment.

Challenges remain at home as well. The restoration of fiscal discipline is one of the most important accomplishments of the past 6 years. One very important challenge going forward will be to maintain that discipline and to insure that fiscal policy plays a helpful role in preparing the country for the demographic challenges it faces in the next century. That is why, in his 1998 State of the Union Address, the President called for reserving the budget surplus until Social Security is reformed for the 21st century. A second major development in the past 6 years has been the reform of the Nation's welfare system, which, together with the strong economy, has produced a dramatic reduction in welfare caseloads. The challenge going forward will be to continue to make work pay for all Americans who play by the rules and want to work, while preserving an adequate safety net for the truly disadvantaged. Finally, the overall strength of the American economy over the past 6 years should not blind us to the inevitability of change and the possibility of disruption that is always present in a dynamic market economy. For example, difficult agricultural conditions in 1998 put stress on the new market-oriented farm policy enacted in 1996. Similarly, the wave of mergers among financial, telecommunications, and other large companies has raised questions about disruptions to communities and workers that go beyond traditional antitrust concerns. The challenge here is to capture the long-run gains from productivity-enhancing change without ignoring the short-run costs to specific groups that are hurt by the change.

Comment [COMMENT1]:
Is it too noticeably that this is called a development not an accomplishment?

This chapter provides an overview of these challenges and Administration responses. The next section provides background by putting the current economic expansion in historical context.

POLICY LESSONS FROM THREE LONG EXPANSIONS

The current economic expansion is the third one that has lasted at least 7 years, based on National Bureau of Economic Research reference dates going back to 1854 (Box 1-1). This section provides a brief overview and comparison of each of these long expansions in order to understand the role of macroeconomic policy in promoting balanced and non-inflationary growth.

Although all signs indicate that the current economic expansion has continued into 1999, its precise length will not be known until some time after it has ended. The dating of business cycles is not an official U.S. government function. Instead, once it has become clear that the economy has reversed direction, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) meets to determine the turning point for historical and statistical purposes. For example, the July 1990 business cycle peak was announced April 25, 1991 and the March 1991 trough was announced December 22, 1992. A popular recession indicator is two consecutive quarters of decline in real GDP, but the NBER does not use this approach. Rather, it defines a recession as a recurring period of decline in total output, income, employment, and trade**[see Hall]**, usually lasting from 6 months to a year.

The Employment Act of 1946 (which created the Council of Economic Advisers) established a policy framework in which the Federal government is responsible for trying to stabilize short-run economic fluctuations, promote balanced and non-inflationary economic growth, and foster low unemployment. Although the economy has continued to experience fluctuations in output and employment in the subsequent half century, the United States has avoided anything like the prolonged contraction of 1873-79 or the one-fifth contraction in output and the rise in the unemployment rate to 30 percent that characterized the Great Depression. Moreover, the

Comment [COMMENT2]: "Trade" is confusing. Maybe we should list the four series that are used, taken from the Hall article that Steve Braun has

Comment [COMMENT3]: Look at the language of the Act and make this consistent with the 1946 Act, don't want to cite Humphrey Hawkins explicitly, see last year's ERP for language p. 21

three longest expansions of the past century—including the current one—have occurred since the Act was passed.

Each of the long post-Employment Act expansions can be interpreted as an experiment in macroeconomic policy. The longest—the Kennedy-Johnson expansion of 1961-69, which lasted 106 months—was associated with the first self-consciously Keynesian approach to economic policy. It was also associated with Vietnam War spending. The longest (completed) peacetime expansion—the Reagan-Bush expansion of 1982-90, which lasted 92 months—was represented as an anti-Keynesian "supply-side" approach to policy. The current expansion is the only long expansion in which fiscal policy was *contractionary* rather than expansionary, reflecting the view that fiscal discipline would lower interest rates and spur long-term economic growth.

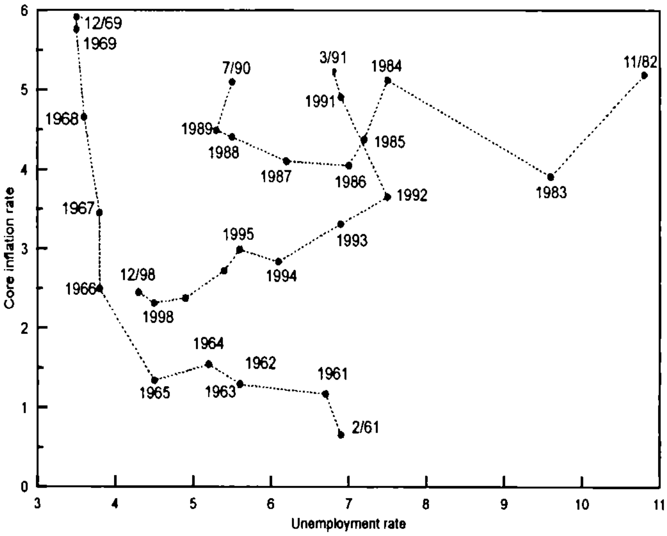
Comment [COMMENT4]:
Chart on standardized budget from last year's budget

KEYNESIAN ACTIVISM IN THE 1961-69 EXPANSION

The Kennedy Administration Council of Economic Advisers advocated activist macroeconomic policies based on the ideas of the British economist John Maynard Keynes. These economists diagnosed the economy as suffering from "fiscal drag" arising from a full-employment (or standardized) budget *surplus* that was too large. In particular, the high marginal tax rates in effect then were seen as causing tax revenues to rise rapidly as the economy approached full employment, draining purchasing power and slowing demand before full employment could be achieved. The problem was not that Federal government receipts and expenditures were sensitive to changes in economic activity—this sensitivity plays an important automatic stabilizing role, particularly when economic activity falters. The problem was that the automatic stabilizers kicked in too strongly on the upside, not only preventing the economy from reaching full employment but also preventing the actual budget from balancing. Thus, President Kennedy proposed a large tax cut designed to reduce the full-employment budget surplus and restore full employment.

The tax cut passed in 1964 provided further stimulus to the economic recovery that had begun in 1961. The unemployment rate continued to fall, dropping below the 4 percent rate that was

Chart 1-1 **Inflation and Unemployment in Three Long Expansions**
Inflation rose late in both the 1961-69 and 1982-90 expansions, but inflation has remained low in the current expasion.



Source. Department of Labor (Bureau of Labor Statistics).

considered full employment at the time early in 1966. Inflation had been edging up as the unemployment rate came down, but it then began to rise sharply (Chart 1-1). Although conditions appeared to call for fiscal restraint, President Johnson was reluctant to raise taxes or scale back his Great Society spending initiatives. Meanwhile Vietnam War spending continued to provide further stimulus.

At the time, it was believed that the rise in inflation could simply be unwound by moving the economy back to 4 percent unemployment, but when restraint was finally applied it produced a rise in unemployment with little reduction in inflation. In general, the mainstream consensus among economists that they could fine-tune economic performance in order to achieve the goals of the Employment Act was dealt a serious setback by the stagflation, productivity slowdown, and oil price shocks that characterized the 1970s.

Comment [COMMENT5]: Was there a consensus that we could fine-tune. Maybe we should say "adjust" or "calibrate"

THE REAGAN REVOLUTION AND THE 1982-90 EXPANSION

By the time Ronald Reagan took office in 1981 the economy was bouncing back from the short 1980 recession, but it was also experiencing high inflation. President Reagan's program for economic recovery called for large tax cuts, increased defense spending, and reduced domestic spending. The justification offered for this policy was not Keynesian demand stimulus, but rather the expectation that substantial cuts in marginal tax rates would call forth sufficient new work effort and investment that the economy's potential output would grow rapidly, easing inflationary pressure and bringing in sufficient new revenue to keep the budget deficit from increasing. The Reagan Administration's expansionary fiscal policy collided, in the short run, with the aggressive anti-inflationary monetary policy of the Federal Reserve. The budget deficit ballooned in the extremely deep recession of 1981-82, and it stayed large even after the Fed eased and the economy began to recover.

Compared with the 1961-69 expansion, the 1982-90 expansion was characterized by higher levels of both inflation and unemployment. But the main distinguishing feature of this expansion was the large budget deficits and their macroeconomic consequences. The combination of an expansionary fiscal policy and a tight monetary policy produced high real interest rates, an appreciating dollar, and a large current account deficit. Although foreign borrowing offset the drain on national saving from the budget deficit and prevented the very sharp squeeze on domestic investment that would have taken place in a closed economy, the net effect of this policy choice was a decline in net national saving and investment after 1984. As in the 1961-69 expansion, inflation began to rise as the economy moved toward high employment. By this time, however, the prevailing view was that inflation could not be reversed simply by returning to the full-employment unemployment rate (Box 1-2). Instead the economy would have to go through a period of subnormal growth in order to squeeze out inflation.

DEFICIT REDUCTION AND THE CURRENT EXPANSION

The economy was out of the 1990-91 recession when President Clinton took office, but the recovery was weak and job growth appeared slow. Budget deficits were very large once again due to both a large full-employment deficit and the recession. The President's economic program sought to get the economy moving again while bringing the budget deficit under control. Rather than relying on tax cuts to provide the stimulus, the President's program was based on the idea that reducing the Federal budget deficit would bring down interest rates and stimulate private investment. Moreover, the Federal Reserve would have ample scope to play an accomodating role. And that is what happened. With a responsible fiscal policy in place and favorable inflation and productivity developments, the decline in the unemployment rate to less than 5 percent did not lead to interest rate hikes that could have choked off the expansion prematurely. The combination of low inflation and low unemployment in this expansion is comparable to the low "misery index" achieved in the late 1960s. This time, however, inflation is tame rather than rising.

Comment [COMMENT6]: Kennedy Administration officially designated 4 percent full employment, should we say that

Judged by the objectives of stabilization policy (inflation and unemployment), the current economic expansion is the most successful of the three long expansions (Table 1-1).

TABLE 1-1--*Stabilization Policy Indicators in Three Long Expansions*

	First 6 Years	7th Year	Last 12 months
1961-69			
Core inflation rate	1.8	4.4	5.9
Unemployment rate	5.1	3.8	3.5
1982-90			
Core inflation rate	4.4	4.4	5.1
Unemployment rate	7.2	5.3	5.3
1991-present			
Core inflation rate	3.1	2.3	2.4
Unemployment rate	6.3	4.8	4.5

Three-quarters of the way through the eighth year of expansion, inflation remains low even though the unemployment rate has been below most estimates of the NAIRU for almost 2 years. This situation stands in marked contrast to the sharply rising inflation experienced at the end of the 1960s expansion and the milder price acceleration seen at the end of the 1980s expansion. To be sure, this good inflation performance has been aided by favorable conditions such as the continuing sharp decline in computer prices, a drop in oil prices, and downward pressure on traded goods prices due to weakness in the world economy. And, as discussed in Chapter 2, the Administration (and consensus private forecasts) project a moderating of growth over the next 2 years. What is significant, however, is that the actions taken over the past 6 years to reduce the budget deficit created conditions in which the Federal Reserve could accommodate steady non-inflationary growth. The rapid growth of industrial capacity in this expansion also helped ease inflationary pressure.

This expansion appears weaker than the others in terms of growth in GDP (Table 1-2). But with slower growth in the working-age population and lower trend productivity growth since the early 1970s, it is understandable that aggregate GDP has grown more slowly than it did in the 1960s. Moreover, growth over the 1980s expansion partly reflects how far below potential output the economy was at the start of the expansion rather than a particularly strong underlying growth trend. Finally, growth in aggregate income matters for some purposes, but productivity growth is what matters for real wages and a rising standard of living over the longer term. And productivity growth has continued relatively strong well into this expansion (rather than exhibiting the decline that often occurs late in expansions). Nevertheless, the rate of productivity growth over this expansion remains well below that achieved in the 1960s, prior to the productivity slowdown.

Comment [COMMENT7]:
[Chad: Shouldn't we note that an investment lead expansion promotes productivity growth, serving to better equip workers to be productive etc.? And we have already seen evidence of a payoff in the sense that capacity utilization has been low relative to unemployment, likely improving inflation performance.] capacity is now mentioned in the causes of low inflation. The future payoff is mentioned at the end of this section.

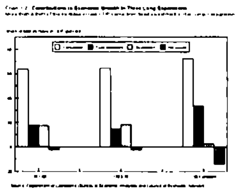
TABLE 1-2--*Economic Growth Indicators in Three Long Expansions*

		from trough	from previous peak
1961-69			
Real GDP	4.8	4.3	
Population		1.5	1.5
Labor force		1.7	1.7
Non-farm productivity		3.0	2.8
1982-90			
Real GDP	3.7	2.6	
Population		1.2	1.2
Labor force		1.6	1.6
Non-farm productivity		1.3	1.0
1991-present			
Real GDP	3.0	2.6	
Population		1.0	1.0
Labor force		1.2	1.1
Non-farm productivity		1.5	1.4

Relatively slow productivity growth continues to prevent the kind of wage and income growth that produced a doubling in living standards between 1948 and 1973. As discussed in Chapter 3, however, the sustained tight labor market that this expansion has produced in the past few years has brought benefits to the vast majority of American workers, including groups that had fallen behind over the past two decades or so. Such a sustained tight labor market has numerous benefits. It increases the confidence of job losers that they will be able to return to work; it lures discouraged workers back into the labor force; it enhances the prospects of those already at work to get ahead; it enables those who want or need to switch jobs to do so without a long period of joblessness, and it lowers the duration of the typical unemployment spell. It can ameliorate long-term structural unemployment by providing jobs and experience to younger and less skilled workers that can increase their longer-run attachment to the labor force. In short, a sustained tight labor market helps the rising tide of economic growth lift all boats.

In terms of lessons for policy, this expansion has illustrated the importance of getting the mix of monetary and fiscal policy correct. Unlike the expansion of the 1980s, which saw an expansionary fiscal policy restrained by tight monetary policy, the current expansion has taken place under conditions of fiscal restraint and an accommodative monetary policy. The 1980s policy mix brought with it relatively high real interest rates, declining net national saving and investment, and a large current account deficit that changed the United States from the world's largest creditor nation to its largest debtor. Strong performance by the U.S. economy in the 1990s has continued to be associated with a strong dollar and, most recently, a widening trade deficit as the United States has continued to absorb foreign goods while weakness abroad has reduced demand for U.S. goods. On balance, however, the current account deficits of the 1990s have been the result of generally rising net national investment remaining greater than generally rising net national saving.

The current account depends on the *gap* between saving and investment. But the implications for future growth depend on the *levels* of saving and investment. The current expansion has been distinguished by the large contribution of private fixed investment to growth in GDP and the relative unimportance of



government spending (Chart 1-2). Strong investment has already been associated with the strong growth in capacity, which has helped keep inflation in check, and may have contributed to the continued growth of productivity as the expansion has matured. Chapter 2 discusses this investment boom in greater detail.

CONCLUSION

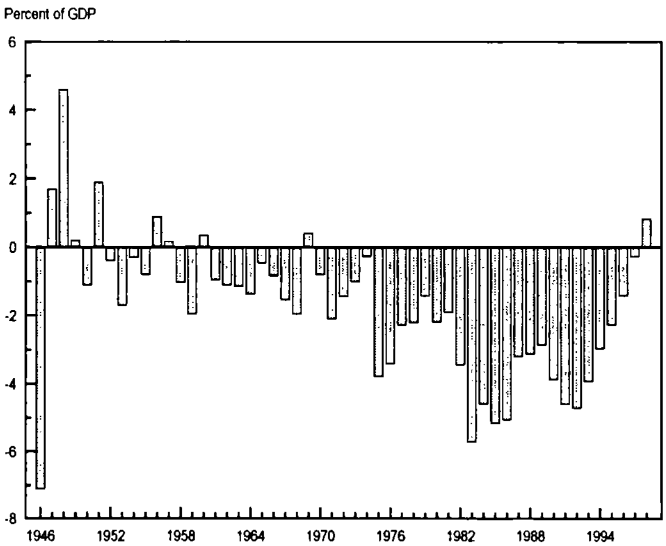
Through a combination of sound policy and other favorable conditions, the current economic expansion has achieved both high employment and low inflation. Longer run trends in productivity and population growth will ultimately determine how fast the economy grows. But the investment that has driven the current expansion should pay off in stronger growth and productivity and higher future standards of living than otherwise would have been the case. With the Federal budget once more under control, large deficits will not constrain future policy choices.

PRESERVING FISCAL DISCIPLINE

Reducing the Federal budget deficit has been a centerpiece of this Administration's economic policy. In 1993, the President pledged to cut the deficit in half by 1998; in 1997, he promised to balance the budget by 2002. In fact, both goals were achieved ahead of schedule, and the budget was in the black last year with the largest surplus as a share of GDP in over 40 years.

The Administration now projects substantial surpluses in the unified Federal budget over the next 25 years. With no further action, however, the aging of the U.S. population and continued growth in health-care spending per person would push the budget back into deficit. However, the favorable near-term outlook has provided an important opportunity to address these longer-term problems. In his 1999 State of the Union Address, the President presented his plan for using the budget surplus to help save

Chart 1-3 **The Federal Budget Balance, 1946-1998**
After a period of persistent large deficits in the 1980s, the Federal budget surplus in 1998 was the largest as a share of GDP since 1957.



Source: United States Treasury.

Social Security and strengthen Medicare in the context of preserving the fiscal discipline that has been so hard-won over the past 6 years.

Comment [COMMENT8]: January 19 talking points

REACHING SURPLUS

Except during wars and economic downturns, the Federal budget was roughly balanced for most of the Nation's history. Yet the large budget deficits that emerged in the early 1980s persisted throughout that decade's economic expansion, and then worsened in the 1990-91 recession(Chart 1-3). In fiscal year 1992, outlays exceeded receipts by $290 billion, or 4.7 percent of GDP. When the President took office in January 1993 the deficit was projected to reach $350 billion in 1998 and $650 billion in 2003 with no change in policy. By 1998, however, receipts exceeded outlays by $70 billion, or 0.8 percent of GDP. (All references to years in this section are fiscal years running from October through September, unless otherwise noted.)

Comment [COMMENT9]: 1998 ERP, p 28

Between 1992 and 1998, the Federal budget balance improved by 5.x percent of GDP. In an accounting sense, this dramatic change is attributable in roughly equal parts to an increase in receipts as a share of GDP and a decline in outlays as a share of GDP. In 1998, receipts were equal to 20.x percent of GDP, up from 17.8 percent in 1992. Outlays were equal to 19.x percent of GDP, down from 22.5 percent in 1992, and are now the smallest as a share of GDP since 1974. More fundamentally, three forces have been at work: policy changes, faster-than-anticipated economic growth, and greater-than-expected tax revenues per dollar of income.

In 1993, the President and the Congress enacted a deficit reduction package designed to cut over $500 billion from the accumulated deficits over the next 5 years. The program slowed the growth of entitlements and extended the "caps" on discretionary spending. It raised the tax rates of the 1.2 percent of taxpayers with the highest income, while cutting taxes for 15 million working families. In 1997 the President and Congress finished the job of reaching budget surplus by passing the Balanced Budget Act, which incorporated additional deficit reduction measures.

Comment [COMMENT10]: 1999 Budget, p. 12

Strong economic growth also helped reduce the deficit. Faster- than-expected growth created more taxable income and more revenue. It also reduced unemployment insurance benefits as well as other means-tested entitlement program outlays—though the effect of better economic performance is considerably smaller on the spending side than on the tax side.

Finally, technical factors have boosted receipts and depressed outlays over and above what has been due to policy changes and macroeconomic conditions. In 1997 and again in 1998 about $2x billion of revenue "surprise" arrived in the form of higher-than-anticipated final payments and lower-than-anticipated refunds on the year's tax obligations. Capital gains realizations are an important component of this revenue surprise. These and other sources of income that are probably associated with the booming stock market of the past several years have boosted the taxable income reported by high-income taxpayers. Corporate income tax receipts have also increased, due to the strong runup in corporate profits. On the spending side, outlays for Federal health programs (Medicare and Medicaid) have been running lower than expected, reflecting slower growth in health care expenditures economy-wide.

Comment [COMMENT11]: This is made up from whole cloth. Let's find out if it's true and if we can say why

FISCAL POLICY IN AN ERA OF SURPLUSES

Achieving a surplus in the Federal budget has laid the groundwork for tackling longer-term problems. Indeed, balancing the budget now is the important first step to improving the fiscal situation later. The most important of the longer-term problems is posed by the aging of the population with its implications for future imbalances in Social Security and Medicare.

Social Security is an extremely successful social program. For almost 60 years, it 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 that 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 example, one in six 20-year olds will die before they reach retirement age. 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. In addition, 3 in 10 20-year olds will become disabled for some period during their working lives, and Social Security also provides disability protection.

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 will 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 (OASDI) program over the next 75 years amounts to around 2-1/4 percent of taxable payroll, or about 1 percent of GDP.

The key factors contributing to the projected OASDI imbalance are improvements in life expectancy and a reduction in birth rates, which have put the United States on a path of rapid decline 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 is 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 Social Security retirement and disability benefits, 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. Use of the surplus to help workers save for retirement also adds to national saving. But if the surpluses are dissipated, they will neither help to strengthen Social Security nor add to national saving.

In his 1998 State of the Union address, the President proposed to reserve every penny of the surplus until there was agreement 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 participated in a number of Social Security forums, whose purpose was to afford Americans the opportunity to understand better the problems facing the Social Security system and to explore alternative solutions to these problems. This process of public discussion culminated in a White House conference in December 1998. In his 1999 State of the Union address, the President announced a plan for bipartisan negotiations with the Congress to devise a comprehensive plan to strengthen Social Security.

The President has set forth five principles to guide the reform process:

- *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.

- *Maintain fiscal discipline.* This is important 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.

- *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.

- *Provide a benefit that people can count on.* This is important so that people have a secure base for retirement planning.

- *Preserve financial security for low-income and disabled beneficiaries.* This highlights the commitment to preserving the disability and survivors' insurance aspects of the OASDI program.

The plan the President announced in his 1999 State of the Union address embodies these principles (Box 1-3)

Achieving a budget surplus is important for the country's long-run future. But this should not preclude the possibility of running a short-run deficit if needed for business cycle purposes.

Indeed, having reached a more defensible general position gives us more options if we need them. Automatic stabilizers will continue to be the most important instrument of fiscal policy for muting short-term fluctuations in economic activity. But as Japan's current troubles should remind us, the economy can sometimes become mired in stagnation to such an extent that discretionary fiscal stimulus may be worthwhile. The elimination of large structural budget deficits frees fiscal policy to undertake such a role if needed.

MEETING THE INTERNATIONAL CHALLENGE

This Administration has been committed from the start to outward looking trade and investment policies. The general principal is that open domestic markets and an open global trading system are superior to trade protection and isolationism in raising wages and living standards over the longer term. Recent strains to the fabric of the international economy have increased the allure of protectionism in some quarters. But the main lesson should be that it is essential to promote growth in the world economy, to help crisis stricken economies recover, and to reform the international financial system in ways that make future crises less likely without abandoning the benefits that come with increased international trade and investment flows.

During the year and a half that has elapsed since the collapse of the Thai baht in July 1997, the "Asian currency crisis" has erupted into a global economic crisis, spreading to financial markets around the world, impacting global commodity markets, impairing economic development and imposing extraordinary hardship in the crisis-afflicted countries, and posing risks to growth throughout the world including the United States and other industrial countries. According to IMF projections, overall global growth is now expected to reach a modest 2.2 percent in 1999, a precipitous drop from the 4.2 percent rate attained in 1997 and 4 percent historical average.

CONTAINING THE CRISIS AND PROMOTING RECOVERY

Since the onset of the crisis, the United States has led the international community's efforts to promote world economic growth, to stabilize international financial conditions, and to implement reforms to reduce the vulnerability of the international system to crisis. These initiatives are described in detail in Chapters 6 and 7.

A first prerequisite for recovery in the world economy is strong growth in the industrial countries that are the main customers of the crisis-afflicted economies. This need has been clearly recognized in both words and deeds by the United States and its G-7 partners. In early October, G-7 finance ministers and central bank governors issued a joint statement indicating that, in their view, the balance of risks in the world economy had shifted. With inflation low and well-controlled, countries should commit to preserving or creating conditions for sustainable domestic growth. Subsequently, monetary conditions were eased in the key industrial countries. In the United States, the Federal Reserve reduced the Federal funds rate three times, helping to restore confidence and liquidity. Japan, Canada, and most European countries also lowered interest rates. Japan, a country in deep recession, whose recovery is particularly critical to the growth prospects of its crisis afflicted Asian trade partners, has taken steps to provide fiscal stimulus and has committed substantial resources to strengthen its financial system. While it is premature to conclude that the world economy is out of the woods, conditions have improved substantially since October, when it appeared that the world might be headed into a generalized global credit crunch.

It is important to emphasize that in serving as an engine of global growth, the United States will inevitably see an increase in its already sizeable trade deficit, and some sectors, particularly those that are heavily exposed to trade, will experience disproportionate impacts. As a result, over the next year or so, calls for protection may be on the rise, and it will be important to find more constructive approaches to the disruptions caused by trade. The United States has urged the crisis impacted countries to keep their own markets open, and this country must itself remain committed to outward looking, internationalist policies.

Beyond working to insure growth in the industrial world, the Administration has focused since the onset of the crisis on the need to contain financial contagion and to restore the confidence of market participants--a prerequisite for capital flows to continue. The Administration has supported the IMF in its goal of providing financial assistance to countries in crisis that are willing to implement the reforms needed to restore economic confidence and strengthen the underpinnings of their economies, including their corporate and financial sectors. The emphasis of IMF programs on financial sector reform reflects the growing consensus, as discussed in Chapter 6, that structural weaknesses, particularly in the process of financial intermediation, were a key element in initiating the crisis. It appears that many countries in East Asia have now made considerable progress toward establishing the foundation for recovery.

As the crisis proceeded, the Administration recognized that its contagious effects threatened countries that had taken great strides in implementing sound macroeconomic and structural policies and had worked to strengthen the fundamentals of their economies. The President therefore proposed, and the G-7 leaders agreed to establish, an enhanced IMF facility to provide contingent short-term lines of credit lines that could be drawn upon by countries pursuing strong IMF approved policies, accompanied, as appropriate, by additional bilateral finance. An IMF stabilization package for Brazil, supplemented by bilateral financing, was implemented in December, partly in order to reduce reduce the risk of a contagious spread of the crisis in this hemisphere.

As the scope of the crisis enlarged, the resources of the IMF became increasingly strained and the Administration recognized a vital need to expand them. A key step was for the U.S. to meet its own financial obligations to the Fund. The Administration proposed, and in October Congress approved, $18 billion in funding, opening the way for about $90 billion of usable resources to be provided by all the IMF members to the liquidity strapped institution.

To address the enormous toll of suffering inflicted by the international financial crisis on the citizens of the affected countries, the Administration has proposed policies to stimulate economic recovery and alleviate hardship. A decade of lost growth, similar to that suffered during the debt crisis of the 1980s, would be intolerable, and the administration recognizes that more is required than simply for the industrial countries to serve as good customers for those countries' products. One problem that is delaying recovery in several of the Asian crisis countries is that large numbers of companies and banks, including many that were in good health before the crisis, have become engulfed in unmanageable debt burdens. Companies and financial institutions in Indonesia, Korea and Thailand, for example, face vast overhangs of bad debt as a result of high interest rates and currency depreciations. To address such systemic problems, the President proposed the exploration of comprehensive plans to help countries restructure debt and restore the flow of credit needed for firms to operate. The Asian Growth and Recovery Initiative, jointly announced by the U.S. and Japan in November, is designed to promote this goal. In additon, many crisis afflicted countries lack effective social safety nets. The Administration also sought, and agreement was reached, to establish a new World Bank emergency facility to support social safety net spending focused on the most vulnerable citizens of the crisis affected countries.

STRENGTHENING THE INTERNATIONAL FINANCIAL ARCHITECTURE

The most important question raised by the recent international crisis is, what can we do to make sure the world never again faces another one like it? Unfortunately, there is no silver bullet--no simple solution that would guarantee countries the benefits of global capital flows while eliminating the risk that a crisis of confidence could once again result in the painful withdrawal of that access. Even so, international agreement is finally emerging on the steps that can and should be taken to strengthen the architecture of the financial system so that it is less crisis-prone going forward. Chapter 7 is devoted to a discussion of potential reforms, including those proposed in recent reports by working groups of central bank governors and finance ministers from a group of industrial and key emerging market countries, informally dubbed the G-22.

The G-22 reports focus on measures to increase transparency and accountability in the operations of individual countries, of financial and corporate institutions and of the international financial institutions themselves. The purpose is to enhance the availability, relevance and reliability of information available for evaluating risk in lending. The reports also propose a series of reforms to strengthen domestic financial institutions: improvements in prudential supervision and regulation are particularly needed in order to create stronger incentives for borrowers and lenders to weigh risk and act with appropriate discipline, thereby reducing the odds of a crisis. Finally, the reports identify policies which could improve creditor coordination in crises and promote the orderly, cooperative and equitable resolution of international financial crises that may occur in the future.

No magic formula can be devised to prevent future currency and financial crises. But there are things that can be done to limit their frequency, the magnitude of their effects, and their pernicious, contagious spread. So, at the same time that the United States works to contain the current crisis and help restore growth in crisis afflicted parts of the world, we will also work with the G7 and through other international fora to implement the reforms of the international financial architecture that would help to achieve this longer term goal. Such reform is crucial for restoring support in an international economic regime based on trade and investment flows that can contribute to rising global living standards in the 21st century.

EMBRACING CHANGE WHILE PROMOTING FAIRNESS

The trade-off between efficiency and fairness is a classic problem in formulating economic policy. Policies that confer benefits broadly sometimes impose relatively high costs on a relatively small group of identifiable individuals. In well-functioning markets, the broadly distributed gains are usually larger in the aggregate than the concentrated losses—often much larger. But those who are hurt often make claims for relief through the political process, and the widespread substitution of political remedies for market outcomes can dissipate these gains.

Increases in the Nation's standard of living over the longer-term require that we embrace change and do not retreat from the constant succession of new opportunities and challenges of an ever-changing world. However, fairness considerations require that we ensure that particular groups are not bearing disproportionate costs even if there are net gains in the aggregate. More pragmatically, achieving political consensus to embrace worthwhile change can sometimes require looking out for the interests of those who are visibly harmed, even if that means sacrificing some portion of the potential gains. Three current policy areas illustrate these difficult choices: agriculture, mergers, and international trade.

AGRICULTURE

For more than a decade bipartisan farm policy has directed producers to seek income increasingly from markets rather than from Federal subsidies. The 1994 Crop Insurance Reform and 1996 Farm Acts sought to replace the farm income safety net based on government-managed price and income supports with a system in which farmers manage their own risk through diversification, futures markets, and government-subsidized crop and revenue insurance. However, when the President signed the 1996 Farm Act he expressed his concern that it failed to provide an adequate safety net for family farmers and he reiterated his commitment to work with the Congress to strengthen the farm safety net.

Farmers prospered in the first few years under the new Farm Act. Farm income rose in 1996 and then reached a record $60.8 billion in 1997 as export demand grew and world commodity prices rose from 1995 levels. In addition, farmers benefitted from the transitional payments provided by the 1996 Farm Act. In 1996 and 1997 these payments boosted farm income by $4.6 and $6.3 billion respectively. In 1998, however, farm income declined dramatically as a result of a sharp drop in commodity prices and a number of weather-related production problems. In response, the Administration negotiated a $6 billion emergency assistance package to boost farm income. With these payments included, net farm in 1998 was $xx.x billion, only slightly less than in 1997. The President has also pledged to work with the Congress this year to achieve reforms in the crop insurance program and in farm income assistance.

The experiences of 1998 reflect the tension inherent in a market-oriented farm policy that tries to provide an adequate safety net for family farmers. Current farm policy encourages farmers to make economic decisions about what to plant, and it helps them manage risk by subsidizing insurance against both poor harvests and low prices. But as long as farmers have a reasonable expectation that the government will step in to provide emergency assistance in the event of weather problems or particularly low prices, they are unlikely to take all appropriate risk management steps themselves. This "moral hazard" problem cannot be escaped entirely, however, because the government will be under strong pressure to address what are perceived to be legitimate disasters.

MERGERS

The United States is currently in the midst of its fifth merger wave of the century. The value of all deals announced in 1997 was almost $1 trillion, and activity in 1998 was over $1.6 trillion. By almost any quantitative standard the current boom is substantial. Measured relative to the size of the economy, it is matched only by the spurt of trust formations at the turn of the century. Measured relative to the market value of all U.S. companies, this year's merger activity is roughly equal to 1988's 12 percent.

Qualitatively, the current merger wave is similar to those that occurred prior to the 1980s in that it has taken place in a strong stock market, with stock rather than cash the preferred funding source. But unlike the pre-1980s transactions, many recent mergers are neither purely horizontal (as in the 1890s and 1920s) nor purely conglomerate (as in the 1960s and 1970s). Rather, they represent market-extension mergers (companies in the same industry that serve different and non-competing markets) or mergers seeking "synergy," in which companies in related markets expect to take advantage of economies of scope. In contrast to the 1980s, when many mergers were primarily motivated by financial considerations, today's mergers are primarily motivated by business strategy and the need to respond to fundamental developments in a rapidly changing economy.

The main reason managers give for undertaking mergers is to increase efficiency. Mergers can encourage greater efficiency by reducing excess capacity, taking advantage of economies of scale and scope, and encouraging technological progress. Over time, such efficiencies translate into lower prices and better products and services for consumers. However, mergers that increase market concentration can lead to higher prices and reduced consumer benefits. In addition, mergers, like other forms of economic change, can disrupt established patterns of economic and social activity.

When the antitrust agencies review mergers they do so with an eye to protecting competition for the benefit of consumers. Considerable attention is paid to market definition, so that the effects are evaluated in the proper context. Antitrust enforcement has been rigorous in this Administration, and mergers receive careful scrutiny. Most have been found to be procompetitive or competitively neutral. But the minority that would reduce competition and harm consumers have been challenged. The current approach, which is aggressive without being heavy handed, stands in contrast to both the strong anti-merger bias of the 1960s and 1970s and the much laxer enforcement of the 1980s.

Antitrust enforcement does not and probably should not encompass the broader range of possible economic and social effects that may be associated with mergers, such as job loss, change in ownership structure, including reduced diversity of ownership, and localized service disruptions. Such effects are not confined to mergers but arise in the case of other forces as well, including technological change, deregulation, and international competition. Indeed, mergers may be more a symptom of broader change in the economy than a cause. The policies that are best for dealing with these changes include promoting full employment and macroeconomic stability, developing a skilled and well-trained workforce, providing adequate unemployment insurance and other safety net programs, and helping communities adapt to economic change. All of these have been part of the Administration's overall economic strategy of the last 6 years.

INTERNATIONAL TRADE

International trade policy has long been a laboratory for addressing the challenge of balancing efficiency and fairness and for providing political safeguards for those who might be hurt by change and would otherwise work to block it. For example, U.S. trade law recognizes that imports can sometimes be associated with labor displacement and other disruptions and provides for several kinds of relief. Escape clause relief allows tariffs to be imposed temporarily in cases where a surge of imports is judged to have been a substantial cause of serious injury to an industry. And countervailing duties may be imposed in cases where foreign producers have been judged to have dumped their products (sold them below cost or at lower prices abroad than at home). Where the law allows discretion, both escape clause and antidumping relief should be approached with caution, because they tend to support the status quo and may impede necessary change.

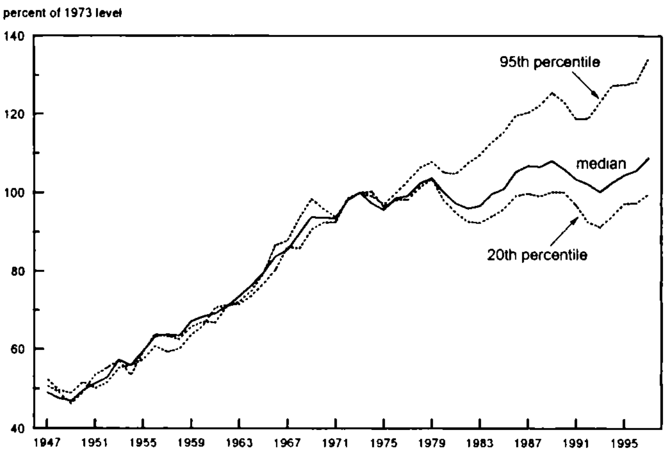
Trade adjustment assistance is an alternative way of dealing with disruptions associated with trade. Since 1962 U.S. trade laws have provided for some kind of cash assistance for workers who have lost their jobs due to trade. In addition, the North American Free Trade Agreement (NAFTA) provides assistance to workers displaced from companies that have shut down their plants and moved production to Mexico or Canada, and the administration has supported extending such assistance to all workers displaced by the movement of work to another country. In theory, trade adjustment assistance provides compensation from the broad class of those who gain from trade (represented by the taxpayers generally) to those who lose (workers in trade-impacted industries) without interfering with the efficiency-enhancing effects of changes in the pattern of production associated with freer trade. In practice, of course, things are more complicated if adjustment assistance interferes unduly with workers' incentives to find new jobs. Nevertheless, adjustment assistance illustrates the general principal that it is desirable to address the disruption from change without stopping the change itself.

PROMOTING PROSPERITY FOR ALL AMERICANS

From the end of World War II until the early 1970s, the rising tide of economic growth raised wages and incomes uniformly across the income distribution. For example, median family income as well as family income at the 20th and 95th percentiles all approximately doubled between 1947 and 1973 (Chart 1-4). Since the early 1970s, however, the overall pace of income growth has slowed and income inequality has increased. Median family income is about 10 percent higher than it was in 1973; income at the 95th percentile is more than a third higher, whereas income at the 20th percentile is virtually unchanged.

This Administration has recognized from the start that the stubborn problems of slow productivity growth and rising income inequality were among the greatest challenges it would face. And there are heartening signs that we may have turned the corner. As mentioned earlier, productivity growth has remained relatively strong in this expansion, whereas it has tended in the past to flag as the expansion matures. Moreover, as detailed in Chapter 3, low-wage and minority workers are enjoying some of the best labor market conditions they have seen in years. Standard measures of income inequality have declined in the past two years, and the poverty rate, which was 15.1 percent in 1993, had fallen to 13.3 percent by 1997. Despite these encouraging trends, however, it is difficult to know how much of the improvement that has taken place since 1993 reflects cyclical effects from the particular strength of this expansion and how much reflects an improvement in longer term effects.

Chart 1-4 **Growth in Family Income, 1947-1997**
Growth in family income has slowed and inequality has increased since 1973



Source: Bureau of the Census

[Automated Records Management System Hex-Dump Conversion]

Maintaining macroeconomic stability is an important necessary condition for making sure that all Americans participate in the country's growing prosperity. But it is also important to continue to develop policies that address the challenges of a changing economy and a changing society, especially in the areas of education and training.

The Administration has made investments in education one of its highest priorities, and the 1998 budget agreement reflected some key education initiatives. In his 1998 State of the Union Address, the President called for 100,000 new, well-prepared teachers to help reduce class sizes in grades 1-3 to a national average of 18. The final budget provided the first down payment on that promise. It also included funding for the GEAR UP program that will expand mentoring efforts by states and provide new grants to provide intensive early intervention services to help prepare up to 100,000 students at high poverty middle schools for college. Funding was increased by 20 percent for education technology to ensure that every child has access to computers, the Internet, high-quality education software, and teachers who can use technology efficiently in the classroom. Finally, the budget agreement included funding for a new initiative to help ensure that all children read well and independently by the end of the third grade. In this year's State of the Union Address, the President added new initiatives to raise standards and increase accountability in public schools through proposals to end social promotion, bring high-quality teachers into the classroom, strengthen the commitment to smaller class sizes, and boost efforts at school modernization.

In October the President signed legislation extending for 5 years the Higher Education Act, originally enacted in 1965, which authorizes many of the federal government's programs to increase access to college, including federal Pell grants, student loans, work study, as well as programs to improve teacher training, strengthen developing institutions, and promote innovation. The reauthorization included a cut in the student loan rate from 8.25 to 7.46 percent, saving students $11 billion over the next 5 years.

Finally, In the face of a rapidly changing global economy and the increased reward to more highly skilled workers, the Administration has sought to strengthen America's workforce development system and to promote lifelong learning. These policies are discussed more in Chapter 3.

CONCLUSION

The U.S. economy remained strong in 1998 despite a serious weakening in the international economy and considerable financial turmoil between July and November. The economy's ability to weather these storms is testimony to the soundness of the policies that have been followed over the past 6 years and to the underlying strength of the current economic expansion. While there is much to be proud of in this economic success, the Nation continues to face important challenges preparing for the 21st century. Chapter 2 of this report provides a review of domestic macroeconomic developments in 1998 and presents the Administration's forecast for 1999 and beyond. Chapter 3 analyzes the benefits of the strong labor market in this expansion. Chapter 4 provides context for discussions of social security reform by analyzing work, retirement, and the economic well-being of the elderly. Chapter 5 examines the role of innovation and regulation as determinants of long-term economic performance, with particular emphasis on antitrust policy, environmental regulation, and electricity restructuring. Finally, Chapters 6 and 7 analyze recent events in the international economy from the standpoint of increased globalization of capital flows and the evolution and reform of the international financial system.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 13:40:50.00

SUBJECT: Re: chapter 3 - "unions" paragraph

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
This looks okay to me.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JAN-1999 13:08:18.00

SUBJECT: chapter 3 - "unions" paragraph

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

TEXT:
After thinking some more about that "unions" paragraph on p 8 of ch 3, I propose simply to delete "has benefited Americans as consumers" from the last sentence of that paragraph. It's that, or try to fact-check a statement about more flexible labor markets increasing the productivity and efficiency of the economy. After reminding myself of Freeman & Medoff's evidence (in What Do Unions Do?) that unions may increase productivity, I think it would be problematic (and perhaps too controversial) to imply that their decline has increased productivity.
Now the passage reads:

"Unions have historically protected many workers from the vicissitudes of the labor market and helped less educated workers obtain higher wages than they could get otherwise. As employment in the more highly unionized goods-producing, transport, and utilities industries has declined as a share of the work force since the 1950s, however, so has union membership. Like the American economy in general, the labor market has become more competitive in recent decades, with compensation and job security more often determined by market forces than before. This has benefited many American workers who were in a position to take advantage of the new job opportunities, but it has been hard on less skilled workers at the lower end of the wage distribution."

Please let me know if you object to the new wording.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 16:28:13.00

SUBJECT: Re: in search of min wage fact

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

TEXT:
We need a ruling: to what extent should authors be incorporating SOTU facts in their Chapters?
(See question below) I think that SOTU facts and issues should be incorporated. But, in your view, will that require too much work?
Thanks.
Michele
---------------------- Forwarded by Michele Jolin/CEA/EOP on 01/20/99 04:18 PM ---------------------------

Robert F. Schoeni
01/20/99 03:19:15 PM
Record Type: Record

To: Michele Jolin/CEA/EOP
cc: Cordelia_W._Reimers @ cea.eop.gov
Subject: Re: in search of min wage fact

Michele, should we try to integrate proposals that were made in the SOTU into the chapters? See the example below.

---------------------- Forwarded by Robert F. Schoeni/CEA/EOP on 01/20/99 03:19 PM ---------------------------

Cordelia W. Reimers
01/20/99 01:45:42 PM
Record Type: Record

To: Nora E. Gordon/CEA/EOP
cc: Robert F. Schoeni/CEA/EOP, Bert I. Huang/CEA/EOP
bcc:

Subject: Re: in search of min wage fact

Should we add "as well as the proposed additional increase of $1 an hour over the next two years"? So it reads:

"Given the wage gap between natives and Mexicans and Central Americans, the increases in the minimum wage in 1996 and 1997 (Box 3-2), as well as the proposed additional increase of $1 an hour over the next two years, are likely to be especially important for these immigrants."

Nora E. Gordon
01/20/99 01:21:29 PM
Record Type: Record

To: Cordelia W. Reimers/CEA/EOP, Bert I. Huang/CEA/EOP
cc:
bcc:
Subject: Re: in search of min wage fact

how about replacing the last sentence in the immigrants section with:

Given the wage gap between natives and Mexicans and Central Americans, the increases in the minimum wage in 1996 and 1997 (Box 3-2) are likely to be especially important for these immigrants.

i think that is more solid.

Cordelia W. Reimers
01/20/99 12:45:47 PM
Record Type: Record

To: Nora E. Gordon/CEA/EOP
cc:
bcc:
Subject: Re: in search of min wage fact

I'm glad you were able to resolve this before I even got around to responding! Just to be sure we're on the same wave length, I intended the sentence to mean all Mex & C Am immigrants, and "large numbers" to mean the lower 20% or so (not a majority). Maybe those last 2 sentences need a little rewording?

Nora E. Gordon
01/20/99 11:31:25 AM

Record Type: Record

To: Robert F. Schoeni/CEA/EOP, Cordelia W. Reimers/CEA/EOP
cc: Bert I. Huang/CEA/EOP
Subject: in search of min wage fact

fact in question: the last sentence in the immigration section.
problems:
1. when i run tabs trying to show it, i don't show it.
2. the EPI min wage report bob suggested as a source is not in becky's office (she looked). if it is truly missing, we should order another because becky does want it.
3. as the fact is written, it refers to "these immigrants" but i am not sure who they are (all mex/cent am? recent? not recent?).

any suggestions would be helpful. if you find a source, it goes to bert.
thanks.
nora

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 10:51:33.00

SUBJECT: President's letter for ERP

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

TEXT:
Did you get a chance to look at the draft of the ERP President's letter?
(see below) I'd like to send it down to speechwriting today if possible.
Please let me know if you have any changes or suggestions.
Michele
---------------------- Forwarded by Michele Jolin/CEA/EOP on 01/20/99
10:50 AM ---------------------------

Michele Jolin
01/15/99 05:48:30 PM

Record Type: Record

To: Janet L. Yellen/CEA/EOP
cc:
Subject: President's letter for ERP

Attached is a DRAFT of the President's letter for the ERP. It is based on the President's Detroit speech. It is not very good -- but I don't think you should spend too much time on it. In the past, speechwriting has taken whatever we give them and they completely re-write it. So I don't think it is worth putting too much effort into improving it. I told speechwriting that I would send this down to them after the SOTU.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D24]MAIL44755402L.036 to ASCII,
The following is a HEX DUMP:

To the Congress of the United States:

Today the American economy is healthy and strong. Indeed, today is a time of American economic renaissance. Our nation's budget is balanced, for the first time in a generation, and we are entering the second year of an era of surpluses: our projections show that we will close out the year 1999 with a surplus of no less than $76 billion, the largest in the history of the United States.

We have created a new economy -- with 17 million new jobs, wages rising at twice the rate of inflation, the highest home ownership ever, and unemployment and inflation at their lowest levels in a quarter century.

Our nation is enjoying the longest peacetime economic expansion in history. And this time, the expansion is different from earlier expansions. This time, the economic expansion is both wide, and deep. This is a truly inclusive expansion. All income groups, from the richest to the poorest, have seen their incomes rise since 1993. The typical family income is up $3,500, adjusted for inflation, since 1993. We have seen big gains for African-American and Hispanic households, who were left behind during the last expansion.

These economic successes are not an accident. They are a result of a new economic vision. They are a result of a strategy that recognized the importance of fiscal discipline, investments in education and technology, and expanding exports to the growing world market.

The Clinton Administration's Economic Agenda

Our new economic strategy was rooted first and foremost in fiscal discipline. We cut the deficit and balanced the budget. And by doing so, by making the hard choices, interest rates dropped -- helping more people buy homes, more entrepreneurs to start businesses, and more businesses to invest in new technology and equipment. America's economic success has been fueled by the biggest boom in private sector investment in decades -- more than $1 trillion in capital was freed for private-sector investment. And, unlike past expansions, where government bought more and spent more to drive the economy, during this expansion government spending as a share of the economy actually has fallen.

The second part of our strategy has been to invest in our people. A high-tech, global economy places ever greater demand for skilled workers. That is why we are continuing to make critical investments in our people and our future. Even as we have balanced the budget, we have nearly doubled our annual investment in education and training. Even as we closed the budget gap, we have expanded the Earned Income Tax Credit for 15 million low-income working families, giving them hope and helping lift them out of poverty. Even as we cut government spending, we have raised investments in a welfare-to-work jobs initiative and invested $24 billion in our children's health initiative.

Third, to build a new American economy, we have focused on opening foreign markets and expanding exports to our trading partners around the world. Fully one third of the strong economic growth America has enjoyed in the 1990s came from trade. Opening markets abroad and expanding trade means that the base of customers for American goods and services expands dramatically. That is why we signed more than [240] trade agreements during the past 6 years.

Addressing Our Nation's Economic Challenges

We have created a strong, healthy and truly global. Our economy is a leader for growth in the world. But common sense, experience, and the example of our competitors abroad show us the perils of resting on our laurels. Now, at this moment of great plenty, is precisely the time to face the challenges of the 21st Century.

First, in the next year and beyond, we must remain vigilant and maintain our hard-won fiscal discipline. That means no tax cuts and no spending programs, that would reverse our hard fought fiscal discipline. Our fiscal responsibility gives us an unparalleled opportunity to address the challenge of an aging nation. Soon the number of elderly Americans will double, a seismic demographic shift with great consequences for our nation. We need to set aside the surplus until we have saved Social Security for the 21st Century. We must also strengthen and secure Medicare for the decades to come.

Second, we must do more to invest in our people. Today the income gap is above all a skills gap. As I said in the State of the Union Address, I will advance a new training agenda to give the American people the skills they need to compete in the growing global economy.

Third, at this time of continued turmoil in the international economy, we must do more to help create stability and prosperity in markets around the world. We must press forward with open trade. It would be a terrible mistake, at this time of economic fragility in so many regions, for the United States to build new walls of protectionism, that could set off a chain reaction around the world, imperiling the growth upon which we depend. At the same time, we must do more to make sure that working people are lifted up by trade. We must do more to ensure that spirited economic competition among nations never becomes a race to the bottom, in the area of environmental protections or labor standards.

Strengthening the foundations of trade means strengthening the architecture of international finance. The United States must continue to lead in stabilizing the world financial system. When nations around the world descend into economic disruption, consigning populations to poverty, it hurts them and it hurts us. These nations are our trading partners; they buy our products and can ship low-cost products to American consumers.

The U.S. proposal for containing financial contagion has been taken up around the world: interest rates are being cut here and abroad, America is meeting its obligations to the International Monetary Fund, there is a new facility at the World Bank to strengthen the social safety net in Asia. And there is now a new precautionary line of credit so nations with strong economic policies can quickly get the help they need before financial problems mushroom from concerns to crises.

Fourth, we must do more to renew our cities. My administration has pursued a new urban strategy, based on empowerment and investment, and we have seen its success. With the critical assistance of Empowerment Zones, unemployment rates in cities across the country have dropped dramatically. But we have more work to do to bring the spark of private enterprise to neighborhoods that have too long been without hope.

Finally, we must do more to protect the environment while promoting economic growth. We have shown that we can indeed pursue greater growth while having cleaner air and cleaner water, and while tackling challenges like global climate change.

Going Forward Together in the 21st Century

Now, on the verge of another American Century, our economy is at the pinnacle of power and success, but challenges remain. Technology and trade and the spread of information have transformed our economy, offering great opportunities but posing great challenges. All Americans must be equipped with the skills to succeed and prosper in the new economy. America must have the courage to move forward and renew our ideas and institutions to meet new challenges. There are no limits to the world we can create, together, in the century to come.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 18:19:15.00

SUBJECT: Re: SOTU facts into ERP

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

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

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

CC: James M. Treadway (CN=James M. Treadway/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
I have written the sentence below for Chapter 6; it is very close to the suggestion by Jeff. I also sent it to NEC to check on its factual correctness, especially the reference to the WTO Ministerial as the occasion to start discussing this new Round; the SOTU did not specifically refer to this.
Nouriel

"The President has called for a new WTO (World Trade Organization) round of global trade liberalization negatiations, to be discussed at the US-hosted WTO Ministerial in November. And he will call Congress this year to give him fast track negotiating authority, which all Presidents have traditionally had."

Janet L. Yellen
01/20/99 06:09:51 PM
Record Type: Record

To: Jeffrey A. Frankel/CEA/EOP
cc: See the distribution list at the bottom of this message

Subject: Re: SOTU facts into ERP

Chad and I have inserted in Chapter 1 a reference to the President's call for "traditional trade negotiating authority and his call for a new WTO round. I wouldn't go on at great length about this in the international chapters although it may still be appropriate to have a reference there as well.

Message Copied
To:____

Michele Jolin/CEA/EOP
Nouriel Roubini/CEA/EOP
Matthew R. McBrady/CEA/EOP
Rebecca M. Blank/CEA/EOP
James M. Treadway/CEA/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 13:17:45.00

SUBJECT: Re: new title for Chapter 6

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

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

TEXT:
Janet, Jeff, I received two different separate messages today from you (see below) about what to do with the title of chapter 6. I can go either way even if I would rather stick with the original title. Am happy to try Jeff's suggestion on Treasury if there is a consensus on that.
NR

Janet L. Yellen
01/20/99 10:57:52 AM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc:
Subject: Re: new title for Chapter 6

Okay. Let's stick with the original.

Jeffrey A. Frankel
01/20/99 09:01:11 AM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc:
bcc:
Subject: Re: new title for Chapter 6

I think you are being unduly cautious. My vote is to try " Capital Flows and Financial Crises in the Global Economy " out on Treasury. The worst that happens is that they say no.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-JAN-1999 13:50:48.00

SUBJECT: Re: chapter 3 - "unions" paragraph

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

TEXT:
thanks.

Janet L. Yellen
01/20/99 01:39:15 PM
Record Type: Record

To: Cordelia W. Reimers/CEA/EOP
cc:
Subject: Re: chapter 3 - "unions" paragraph

This looks okay to me.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JAN-1999 10:59:26.00

SUBJECT: Re: new title for Chapter 6

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

TEXT:
Okay. Let's stick with the original.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 14:13:28.00

SUBJECT: Re: Two ERP issues: 1 Access to safety net of foreign banks operating in the US. 2. CA-business cycle link

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

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

TEXT:
Good suggestions. I agree. I will revise accordingly.
Nouriel

Janet L. Yellen
01/21/99 02:09:36 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Jeffrey A. Frankel/CEA/EOP
Subject: Re: Two ERP issues: 1 Access to safety net of foreign banks operating in the US. 2. CA-business cycle link

On the current account deficit issue, I agree with the suggestion that we should drop the last sentence in the paragraph on page 59 which reads "For example, the switch to a more expansionary fiscal policy in 1981...during the 1980-82 recession." The timing and details are just too complicated. However, I would leave in the previous sentence which says that the relationship between the currenct account deficit and recessions is not ironclad.

On the issue relating to discount window borrowing by foreign banks, I would also drop the sentence following the logic you gave rather than qualifying the sentence. On paper, namely, in the official regulations, the branches do have discount window access. The Fed policy--that they should borrow at home first--is completely unofficial and probably politically sensitive. So, if we qualify their right to borrow at all it will raise politically sensitive questions. All in all, it's just not worth it, so let's chop it.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JAN-1999 16:16:31.00

SUBJECT: Re: erp comments

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

TEXT:
Janet: I really can live with this - I knew all along that this might happen. I mainly wanted to keep the summary - that there are costs. Since they don't mind keeping the summary, I can live with dropping the rest. Steve

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 16:33:54.00

SUBJECT: Re: erp comments

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

TEXT:
Okay.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 16:10:10.00

SUBJECT: Re: erp comments

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

TEXT:
Are you sure you can live with it because we can discuss and perhaps
debate the issue if you'd like.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 17:57:03.00

SUBJECT: Re: A quick question

TO: Mary Ann Huisman <huisman (Mary Ann Huisman <huisman @ Haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TEXT:
Many thanks for the compliment and the info. I will return just as soon
as I possibly can.

Fondly, Janet

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JAN-1999 15:51:41.00

SUBJECT: erp comments

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

TEXT:
Janet: NEC and the VPs office had one change they wanted on the environmental part of chapter 5 - they wanted to drop the paragraph reviewing the evidence on long-run costs from stricter environmental regulations. They did not mind the summary statement that said there was evidence of cost. They just didn't want reference to specific studies. I can live with dropping this paragraph. Steve

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 17:12:47.00

SUBJECT: Re: ERP. Expected effects of Asian crisis on US growth in 1999 & growth accounting effects of trade on growth

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

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

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
I agree with Nouriel's complaint but I just don't believe that this paragraph is the right place to get involved in a discussion of what drives the overall forecast of slowing growth. I would rather say less than more, Accordingly, I propose:

"The Administration anticipates a further widening of the trade and current account deficits in 1999. However, the drag on overall GDP growth attributable to declining net exports is likely diminish.

Nouriel Roubini
01/21/99 04:34:12 PM
Record Type: Record

To: Janet L. Yellen/CEA/EOP, Jeffrey A. Frankel/CEA/EOP
cc: Steven N. Braun/CEA/EOP, Matthew R. McBrady/CEA/EOP
Subject: ERP. Expected effects of Asian crisis on US growth in 1999 & growth accounting effects of trade on growth

There is currently a sentence in chapter 6 that reads as follows:
"As discussed in Chapter 2, the impact of the Asian crisis on U.S. trade and financial markets is expected to continue. Its effects in 1999, as forecast by the administration, will contribute to a moderation in overall growth from the exceptionally rapid pace of the last several years toward still solid and sustainable levels"

We asked Steve about this sentence and using the term "moderation". His reply and suggested new wording are given below. I do not like very much the two references (in his wording) to negative effects of the trade balance on growth. Conceptually, the growth accounting of the effects of exports and imports on growth is flawed as one could argue that, if net imports satisfy a very fast growth rate of consumption, the effect of net imports on growth in economically zero even when the growth accounting suggest a negative effect of trade on growth. After all, in 1988 we grew at a break-neck pace of almost 4.0% in spite of the trade deficit worsening from $100b to $170b. We do not really believe nor mean that we could have grown at 6% if only trade had not contributed a negative 2% to growth (as suggested by a mechanical use of growth accounting). Do we all agree on that?

So I would suggest the following wording that seems a reasonable balance between the two extremes:
"As discussed in Chapter 2, the impact of the Asian crisis on U.S. trade and financial markets is expected to continue. Its effects in 1999, as forecast by the administration, will contribute to a moderation in overall growth. Domestic demand is expected to cause GDP to decelerate from the exceptionally rapid pace of the last several years toward still solid and sustainable levels."

Note also that, in spite of the very valid observations by Steve about the fuzziness of term "moderation" it was used yesterday by Greenspan ("Though the pace of economic expansion is widely expected to moderate as 1999 unfolds, signs of an appreciable slowdown as yet remain scant. "). So I would keep moderation even if I am happy to change it to "decelaration" instead in the above sentence. Also, given the views expressed by "Demi-God" Greenspan, do we really expect an "appreciable slowdown" in 1999?
Nouriel

STEVE COMMENT:
"This sentence has problems for several reasons. The first is ambiguity because I don't know what "moderation" means. (I never use this word.) I suspect that moderation means decelleration (that is, the second derivative of a series). Others would say that moderation only means a reduction--that is, the first derivative. Now you are talking about the "moderation in the growth of GDP." Because growth is already a first derivative, "moderation of GDP growth" might mean that you are expecting the third (time) derivative of GDP to be negative. But I am sure this is not what you mean.

You must mean that GDP growth will decline (or alternately that GDP will decelerate) because of the effects of the Asian Crisis. This statement has a factual problem insofar as net exports are expected to be a negative influence in 1999, but are expected to be less negative than in 1988. Thus net exports actually increase GDP growth (or equivalently cause GDP to accelerate).

I suggest you replace the sentence with. "As discussed in Chapter 2, the impact of the Asian crisis on U.S. trade and financial markets is expected to continue. Its effects in 1999 [the Asia crisis'], as forecast by the Administration, will continue to be a negative inflluence on overall growth, although perhaps not as negative as in 1998. Domestic demand is expected to cause GDP to decelerate from the exceptionally rapid pace of the last several years toward still solid and sustainable levels."

(note that NEC forbids us from using the verb "slow" as a synonym for decelerate)"

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 14:11:13.00

SUBJECT: Re: Two ERP issues: 1 Access to safety net of foreign banks operating in the US. 2. CA-business cycle link

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

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

TEXT:
On the current account deficit issue, I agree with the suggestion that we should drop the last sentence in the paragraph on page 59 which reads "For example, the switch to a more expansionary fiscal policy in 1981...during the 1980-82 recession." The timing and details are just too complicated. However, I would leave in the previous sentence which says that the relationship between the currenct account deficit and recessions is not ironclad.

On the issue relating to discount window borrowing by foreign banks, I would also drop the sentence following the logic you gave rather than qualifying the sentence. On paper, namely, in the official regulations, the branches do have discount window access. The Fed policy--that they should borrow at home first--is completely unofficial and probably politically sensitive. So, if we qualify their right to borrow at all it will raise politically sensitive questions. All in all, it's just not worth it, so let's chop it.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. email	Nouriel Roubini to Jeffrey A. Frankel and Janet L. Yellen at 18:59:21.00. Subject: Medley Alert: Brazil: Plan C in the Works. (10 pages)	01/21/1999	P4/b(4)

COLLECTION:

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P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-JAN-1999 11:43:57.00

SUBJECT: Two ERP issues: 1 Access to safety net of foreign banks operating in the US. 2. CA-business cycle link

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

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

TEXT:
Janet,
I looked into two issues you asked me to check for chapters 6 & 7 of the ERP.

1. I spoke wirth Lew Alexander on the issue of access to safety net of foreign banks operating in the US &. The situation is as follows. US branches of foreign banks operating in the US do have some access to the US safety net. For example, their deposits are FDIC guaranteed. For what concern access to the discount window, while in principle such branches do have access to such facility, the Fed strongly urges them to rely first on their own country discount window facility before they apply to the Fed. Also, it is clear that if the potential failure of one of such institutions may have systemic effects, the Fed might be forced to intervene under the too-big-to-fail doctrine. Say, hypothetical example, even if Bankers Trust is now owned by Deutsche Bank, we would worry about systemic effects of a failure of such now foreign owned banking institution.

Given the state of things I would suggest to change the wording of the sentence in question in chapter 7. I provide below the old wording and my suggested new wording.

Old wording:
"And only U.S. banks have access to the safey net provided by U.S. regulatory authorities (access to the Federal Reserve's discount window, for example)."

"And only U.S. banks (and partly U.S. branches of foreign banks operating in the U.S.) have access to the safey net provided by U.S. regulatory authorities."

A more radical choice may be to drop the sentence altogether as it was a side point to the discussion of the advantages of having an international currency. As the sentence in question follows one arguing that U.S,. banks have comparative advantage in dealing with dollars, we can drop it altogether without any effect on the logic of the relevant paragraph.

2. I looked into your paragraph qualifying the argument that the CA improves during recession. At the end of that paragraph, you added the

following sentence:
"For example, the switch to a more expansionary fiscal policy in 1981 produced large fiscal deficits (negative government saving), and thus an exceptional large decline in national saving during the 1980-82 recession."

I would suggest to drop the sentence for the following reason. The 1980-82 period had two recession. The first Jan to Jul 1980 was consistent with the view that the CA improves as the current account was in a surplus during that year and improved relative to 1979. It is true that there is a somewhat large statistical discrepancy in 1980 but I would think of it as either mismeasured saving or investment rather than mismeasured current account. So, if we believe that there was an improved current account su rplus in 1980, we can add 1980 to the list of episodes (earlier in that section) confirming the business cycle properties of the CA.

However, your point may be partly correct about the 1982 recession (that formally went from Jul 1982 to Nov 1982) as the 1982 CA was in a deficit associated with a strong ($73 b) worsening in government savings. However, the CA was in a surplus in 1981 (with very small statisctical discrepancy) and the economy was in a recession in 1981 starting in July. So, your argument is correct for, at most 2/3 of the 1981-82 recession. i.e. for 1982 but not 1981.

So, I would drop the sentence but if you strongly feel about making your point, we need to change the sentence to (changes in bold):
"For example, the switch to a more expansionary fiscal policy in 1982 produced large fiscal deficits (negative government saving), and thus an exceptional large decline in national saving during the 1982 recession."

I can go either way. Let me know.

Nouriel

Nouriel