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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet Yellen to Mary Ann Huisman at 14:34:03.00. Subject: A quick question. (1 page)	01/21/1999	Personal Misfile
002. email	Michele Jolin to Rebecca M: Blank and Janet L. Yellen at 20:59:29.00. Subject: Jeff's Farewell Pary. (1 page)	01/26/1999	b(6)

COLLECTION:

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

FOLDER TITLE:

[01/21/1999 - 01/26/1999]

2013-0723-F
ab1293

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 13:50:02.00

SUBJECT: Brazil Currency, Shares Plunge as Capital Flees

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

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

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

TEXT:
Brazil Currency, Shares Plunge as Capital Flees

Brazil Currency, Shares Plunge as Capital Flees (Update5) (Updates with latest numbers, new traders' quote.)

Sao Paulo, Jan. 21 (Bloomberg) -- The Brazilian currency plunged almost 9 percent and stocks tumbled as an exodus of capital stoked concerns about a dollar shortage at the nation's banks.

The real weakened to a record low of 1.75 to the dollar -- before strengthening to 1.73 -- and interest rates soared on concern that the supply of dollars at Brazilian banks was drying up. Capital flight has topped $500 million a day this month and the central bank has declined to inject more dollars into the system to prop up the currency and preserve its reserves.

One week after Brazil devalued its currency, traders said it's almost impossible to say how far the real may weaken. ``The market is completely without parameters," said Mario Pekelmann, commercial director at Renascenca Dtvm Ltda., a brokerage firm.

He said banks and exporters, the main source of dollars in Brazil, are both reluctant to sell because they think the real could fall further.

Brazilian banks could have as little as $700 million on hand, or less than two day's supply, given the pace of capital flight this month, traders said. ``If dollar flows aren't reversed, the dollar supply is going to dry up," said Odair Abate, an at economist Lloyds Bank Plc. ``Since the central bank hasn't sold any dollars since the devaluation, the question is how much more banks have to satisfy demand."

The currency's decline -- it has lost 30 percent since last week's devaluation -- and jump in interest rates could set back government efforts to revive the region's biggest economy. They could also stunt growth and capital flows to Latin America.

Reserves

Brazil's foreign reserves have dwindled to below $30 billion

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 16:35:50.00

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

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

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

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

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

TEXT:
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)"

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 10:55:09.00

SUBJECT: ERP Activities section

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

TEXT:
Attached is the draft of the actitivies section. Becky and Jeff have both
seen it and made changes.
Michele

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D11]MAIL48824022P.036 to ASCII,
The following is a HEX DUMP:

Appendix A
REPORT TO THE PRESIDENT ON THE ACTIVITIES
OF THE
COUNCIL OF ECONOMIC ADVISERS DURING 1998

LETTER OF TRANSMITTAL

Council of Economic Advisers
Washington, D.C., December 31, 1998

Mr. President:

The Council of Economic Advisers submits this report on its activities during the calendar year 1998 in accordance with the requirements of the Congress, as set forth in section 10(d) of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,

Janet L. Yellen, Chair
Jeffrey A. Frankel, Member
Rebecca M. Blank, Member

Council Members and their Dates of Service

Name	Position	Oath of office date	Separation date
Edwin G. Nourse	Chairman	August 9, 1946	November 1, 1949.
Leon H. Keyserling	Vice Chairman	August 9, 1946	
	Acting Chairman	November 2, 1949	
	Chairman	May 10, 1950	January 20, 1953.
John D. Clark	Member	August 9, 1946	
	Vice Chairman	May 10, 1950	February 11, 1953.
Roy Blough	Member	June 29, 1950	August 20, 1952.
Robert C. Turner	Member	September 8, 1952	January 20, 1953.
Arthur F. Burns	Chairman	March 19, 1953	December 1, 1956.
Neil H. Jacoby	Member	September 15, 1953	February 9, 1955.
Walter W. Stewart	Member	December 2, 1953	April 29, 1955.
Raymond J. Saulnier	Member	April 4, 1955	
	Chairman	December 3, 1956	January 20, 1961.
Joseph S. Davis	Member	May 2, 1955	October 31, 1958.
Paul W. McCracken	Member	December 3, 1956	January 31, 1959.
Karl Brandt	Member	November 1, 1958	January 20, 1961.
Henry C. Wallich	Member	May 7, 1959	January 20, 1961.
Walter W. Heller	Chairman	January 29, 1961	November 15, 1964.
James Tobin	Member	January 29, 1961	July 31, 1962.
Kermit Gordon	Member	January 29, 1961	December 27, 1962.
Gardner Ackley	Member	August 3, 1962	
	Chairman	November 16, 1964	February 15, 1968.
John P. Lewis	Member	May 17, 1963	August 31, 1964.
Otto Eckstein	Member	September 2, 1964	February 1, 1966.
Arthur M. Okun	Member	November 16, 1964	
	Chairman	February 15, 1968	January 20, 1969.
James S. Duesenberry	Member	February 2, 1966	June 30, 1968.
Merton J. Peck	Member	February 15, 1968	January 20, 1969.
Warren L. Smith	Member	July 1, 1968	January 20, 1969.
Paul W. McCracken	Chairman	February 4, 1969	December 31, 1971.
Hendrik S. Houthakker	Member	February 4, 1969	July 15, 1971.
Herbert Stein	Member	February 4, 1969	
	Chairman	January 1, 1972	August 31, 1974.
Ezra Solomon	Member	September 9, 1971	March 26, 1973.
Marina v.N. Whitman	Member	March 13, 1972	August 15, 1973.

[Automated Records Management System Hex-Dump Conversion]

Gary L. Seevers	Member	July 23, 1973	April 15, 1975.
William J. Fellner	Member	October 31, 1973	February 25, 1975.
Alan Greenspan	Chairman	September 4, 1974	January 20, 1977.
Paul W. MacAvoy	Member	June 13, 1975	November 15, 1976.
Burton G. Malkiel	Member	July 22, 1975	January 20, 1977.
Charles L. Schultze	Chairman	January 22, 1977	January 20, 1981.
William D. Nordhaus	Member	March 18, 1977	February 4, 1979.
Lyle E. Gramley	Member	March 18, 1977	May 27, 1980.
George C. Eads	Member	June 6, 1979	January 20, 1981.
Stephen M. Goldfeld	Member	August 20, 1980	January 20, 1981.
Murray L. Weidenbaum	Chairman	February 27, 1981	August 25, 1982.
William A. Niskanen	Member	June 12, 1981	March 30, 1985.
Jerry L. Jordan	Member	July 14, 1981	July 31, 1982.
Martin Feldstein	Chairman	October 14, 1982	July 10, 1984.
William Poole	Member	December 10, 1982	January 20, 1985.
Beryl W. Sprinkel	Chairman	April 18, 1985	January 20, 1989.
Thomas Gale Moore	Member	July 1, 1985	May 1, 1989.
Michael L. Mussa	Member	August 18, 1986	September 19, 1988.
Michael J. Boskin	Chairman	February 2, 1989	January 12, 1993.
John B. Taylor	Member	June 9, 1989	August 2, 1991.
Richard L. Schmalensee	Member	October 3, 1989	June 21, 1991.
David F. Bradford	Member	November 13, 1991	January 20, 1993.
Paul Wonnacott	Member	November 13, 1991	January 20, 1993.
Laura D'Andrea Tyson	Chair	February 5, 1993	April 22, 1995.
Alan S. Blinder	Member	July 27, 1993	June 26, 1994.
Joseph E. Stiglitz	Member	July 27, 1993	
	Chairman	June 28, 1995	February 10, 1997.
Martin N. Baily	Member	June 30, 1995	August 30, 1996.
Alicia H. Munnell	Member	January 29, 1996	August 1, 1997.
Janet L. Yellen	Chair	February 18, 1997	
Jeffrey A. Frankel	Member	April 23, 1997	
Rebecca M. Blank	Member	October 22, 1998	

Report to the President on the Activities of the Council of Economic Advisers During 1998

The Council of Economic Advisers was established by the Employment Act of 1946 to provide the President with objective economic analysis and advice on the development and implementation of a wide range of domestic and international economic policy issues.

The Chair of the Council

Janet L. Yellen continued to chair the Council during 1998. Before becoming Chair of the Council, Dr. Yellen served as a Member of the Board of Governors of the Federal Reserve System. Dr. Yellen is on leave from the Haas School of Business at the University of California, Berkeley, where she is the Bernard T. Rocca, Jr. Professor of International Business and Trade. Dr. Yellen is responsible for communicating the Council's views on economic matters directly to the President through personal discussions and written reports. Dr. Yellen also represents the Council at Cabinet meetings, meetings of the National Economic Council (NEC), daily White House senior staff meetings, budget team meetings with the President, and other formal and informal meetings with the President, senior White House staff, and other senior government officials. Dr. Yellen is the Council's chief public spokesperson. She directs the work of the Council and exercises ultimate responsibility for the work of the professional staff.

The Members of the Council

Jeffrey A. Frankel is a Member of the Council of Economic Advisers. Dr. Frankel is on leave from the University of California, Berkeley, where he is a Professor of Economics. He previously directed the program on International Finance and Macroeconomics at the National Bureau of Economic Research and is a former Senior Fellow at the Institute for International Economics.

Rebecca M. Blank is also a Member of the Council of Economic Advisers. Dr. Blank is on leave from Northwestern University, where she is a Professor of Economics. Dr. Blank previously served as the first Director of the Northwestern University/University of Chicago Joint Center for Poverty Research and was also a member of the research faculty at Northwestern University's Institute for Policy Research.

The Chair and Members work as a team on most economic policy issues. Dr. Frankel was primarily responsible for the Administration's economic forecast, international economic issues and certain microeconomic issues, including those relating to natural resources, the environment and industrial organization. Dr. Blank was primarily responsible for budget and tax, labor, retirement security, health care, welfare reform, child and family policy issues and worked closely with the President's Initiative on Race. The Chair and the Council Members participate in the deliberations of the NEC. Dr. Yellen is a member of the NEC Principals Committee.

WEEKLY ECONOMIC BRIEFING

Dr. Yellen and the Members continued to prepare the *Weekly Economic Briefing* for the President, the Vice President, and the President's other senior economic and policy advisers. The Council, in cooperation with the Office of the Vice President, prepares the written *Weekly Economic Briefing,* which provides analysis of current economic developments, more extended discussions of a wide range of economic issues and problems, and summaries of economic developments in different regions and sectors of the economy.

MACROECONOMIC POLICIES

A primary function of the Council is to advise the President on all major macroeconomic issues and developments. The Council prepares for the President, the Vice President, and the White House senior staff almost daily memoranda that report key economic data and analyze current economic events.

The Council, the Department of the Treasury, and the Office of Management and Budget--the Administration's economic "troika"--are responsible for producing the economic forecasts that underlie the Administration's budget proposals. The Council, under the leadership of the Members, initiates the forecasting process twice each year. In preparing these forecasts, the Council consults with a variety of outside sources, including leading private sector forecasters.

In 1998 the Council continued to take part in discussions about a range of budget issues, including Medicare reform, discretionary spending priorities, and the Administration's tax proposals. The Council also participated in discussions regarding proposals to strengthen the Social Security system.

The Council participates in the working Group on Financial Markets, an interagency group that monitors developments related to financial markets and the banking sector. The group includes representatives from the Treasury, the Federal Reserve, the NEC, and various regulatory agencies. The Council also participated in a working group studying bankruptcy reform.

The Council continued its efforts to improve the public's understanding of economic issues and the Administration's economic agenda through regular briefings with the economic and financial press, frequent discussions with outside economists, and presentations to outside organizations. Drs. Yellen, Frankel, and Blank also regularly exchanged views on the macroeconomy with the Chairman and Members of the Board of Governors of the Federal Reserve System.

INTERNATIONAL ECONOMIC POLICIES

The Council has been an active participant in 1998 in the international economic policymaking process through the NEC and the National Security Council, providing both technical and analytic support and policy guidance.

In particular, the Council took an active role in developing policies to respond to financial turmoil in Asia, Russia and Latin America. Specifically, the Council took an active role in developing the Asian Growth and Recovery Initiative, which was designed to accelerate restructuring of bank and corporate debts in some crisis countries. The Council also monitored closely the effects of the Asian crisis on U.S. trade. In addition, the Council was actively participated in the process to develop the President's proposal to reform the international financial architecture.

The Council has taken an active role on a range of other international economic issues, including evaluating and explaining the case for trade liberalization, U.S. trade remedy laws (antidumping, countervailing duties, safeguards, and Section 301 actions), and the agendas of multilateral and regional forums such as the World Trade Organization, and the Asia-Pacific Economic Cooperation forum. The *Weekly Economic Briefing of the President* also regularly included articles on international events and issues.

The Council continued annual meetings with the Economic Planning Agency of Japan and the state Planning Commission of China, the Council's counterparts in those countries. In May, Dr.

Yellen led a delegation of U.S. economic officials, including representatives from the Departments of Commerce and Treasury and the Federal Reserve Board of Governors, to China to continue discussions about China's economy and economic reforms. Dr. Yellen also participated in the President's trip to China in June. In addition, Dr. Yellen traveled to Japan in November, as part of the President's official visit, to discuss Japan's economy and economic reforms.

The Council often represents the United States at international meetings and forums. The Council is a leading participant in the Organization for Economic Cooperation and Development (OECD), the principal forum for economic cooperation among the high-income industrial countries. The Council heads the U.S. delegation to the semiannual meetings of the OECD's Economic Policy Committee; Dr. Yellen serves as that committee's chair. In 1998 Dr. Frankel participated in Working Party 3 on macroeconomic policy coordination. Dr. Blank led the U.S. delegation to Working Party 1 of the OECD, which focused on microeconomics, budget and other policy questions. Dr. Steven N. Braun, Director, Macroeconomic Forecasting at the Council, led the U.S. delegation to the OECD annual examination of the United States.

MICROECONOMIC POLICIES

During 1998 the Council was an active participant in a range of microeconomic policy discussions. The Council participated in various interagency policy discussions on labor market issues, health care, education, urban issues, child care, and welfare reform; in interagency discussions of proposals to increase health insurance coverage for older workers; and in a working group investigating alternative measures of poverty. The Council also participated in working groups on the minimum wage, pensions, training initiatives for displaced workers, immigrant visas, unemployment insurance reform, and farm policy.

The Council also was actively involved in the President's Initiative on Race. The Council coordinated the production and release of a document that presented important indicators of social and economic well-being by race and ethnicity for use by a national audience including educators and policymakers. In October, the Council also helped coordinate a major conference on racial trends in the United States, sponsored by the President's Initiative on Race and organized by the National Research Council.

In June 1998, the Council issued a report titled *Explaining Trends in the Gender Wage Gap*. The report concluded that although the gap between women and men's wages has narrowed substantially since the signing of the Equal Pay Act in 1963, there still exists a significant wage gap that cannot be explained by differences between male and female workers in labor market experience and in the characteristics of jobs they hold.

In the areas of regulation and competition policy, the Council helped develop important Administration initiatives to improve the performance of markets, both domestically and internationally. On the domestic front the Council took part in interagency efforts to increase competition and efficiency in electric power markets in a manner consistent with important environmental and social objectives. The Council played an active role in developing the

Administration's response to proposed legislation to reform the global satellite industry and has worked with other agencies to develop competitive principles that will increase consumer benefits from satellite communications. The Council provided background information and participated in a review of merger effects and related policy issues, and participated in interagency reviews of competition and pricing in various sectors of the transportation market. The Council also participated in a working group on consumer privacy policy, and another group on natural disaster insurance.

The Council has also been active on several matters relating to telecommunications: working with the Office of the Vice President to examine comprehensively increases in growth and competition in the U.S. telecommunications industry and participating in interagency working groups to define Administration positions on a variety of regulatory matters before the Federal Communications Commission (FCC).

The Council was also active in a range of policy discussions on natural resources and the environment. The Council was actively involved in the development and analysis of the Administration's global climate change policy.

After the negotiation of the Kyoto Protocol, the Council responded to requests from Congress and the public to provide an analysis of the economic impact of the climate change agreement. The Council led the preparation and release of the Administration's economic analysis -- titled *The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis.* Dr. Yellen testified ___ times before several House and Senate Committees regarding the

Administration's analysis. The Council has been particularly active in developing and promoting plans for the international trading of emissions permits and other market mechanisms to achieve the targets of the Kyoto Protocol most efficiently. To advance these plans, Members and staff traveled to and consulted with officials from China, Korea, France and Argentina.

The Staff of the Council of Economic Advisers

The professional staff of the Council consists of the Chief of Staff, the Senior Statistician, 9 senior economists, the Senior Advisor to the Council, 5 staff economists, and 3 research assistants. The professional staff and their areas of concentration at the end of 1998 were:

Chief of Staff and General Counsel

Michele M. Jolin

Senior Economists

Steven N. Braun...............Director, Macroeconomic Forecasting

Douglas W. Elmendorf......Macroeconomics and Finance

Elise H. Golan.....................Agriculture and Natural Resources

Stephen Polasky..................Environment and Natural Resources

Cordelia W. Reimers...........Labor, Social Policy, and Education

Nouriel Roubini...................International Economics

Robert F. Schoeni................Labor and Welfare

Howard A. Shelanski........Regulation, Industrial Organization, and Antitrust

Charles F. Stone.............. Macroeconomics and Editor, *Weekly Economic Briefing of the President*

Senior Advisor to the Council

Joseph E. Aldy, Jr...........Environment and Natural Resources

Senior Statistician

Catherine H. Furlong

Staff Economists

Ryan D. Edwards...............Macroeconomics

Quindi C. Franco.............Environment and Natural Resources

Nora E. Gordon.................Labor and Social Economics

Bert I. Huang....................Labor and Microeconomics

Matthew R. McBrady.........International Economics

Research Assistants

Andrew R. Feldman

Raymond P. Guiteras

Summer L. Scott

Statistical Office

Mrs. Furlong directs the Statistical Office. The Statistical Office maintains and updates the Council's statistical information, oversees the publication of the *Economic Indicators* and the statistical appendix to the *Economic Report*, and verifies statistics in Presidential and Council memoranda, testimony, and speeches.

Susan P. Clements...........Statistician and Information Systems

Linda A. Reilly.................Statistician

Brian A. Amorosi.............Research Assistant

Administrative Office

Catherine Fibich.............Administrative Officer

Office of the Chairman

Alice H. Williams.............Executive Assistant to the Chairman

Sandra F. Daigle............. Executive Assistant to the Chairman and Assistant to the Chief of Staff

Lisa D. Branch.................Executive Assistant to Dr. Frankel

Francine P. Obermiller.....Executive Assistant to Dr. Blank

Staff Secretaries

Mary E. Jones

Rosalind V. Rasin

Mary A. Thomas

Mrs. Thomas also served as executive assistant for the *Weekly Economic Briefing of the President.*

Michael Treadway provided editorial assistance in the preparation of the 1999 Economic Report. Michael A. Toman, Resources for the Future, served as a consultant during the year.

Anne M. Piehl and Timothy Waidmann provided expertise in the preparation of a report prepared by the Council of Economic Advisers for the President's Initiative on Race entitled, "*Changing America.*" Jenepher W. Moseley provided editorial assistance in the preparation of this report, which presented indicators of social and economic well-being by race and Hispanic origin.

Student interns during the year were Robert P. Bamsey, Gregory A. Bedard, Carol L. Capece, Michael A. Egner, Heather L. Jambrosic, Jason K. Nuzzo, Annette M. Richter, Rachel E. Rubinfeld, Jasmin K. Sethi, and Matthew C. Weinzierl. The following student interns joined the Council in January to assist with the preparation of the *Economic Report*: Enrique J. Alonso, David S. Felman, Matthew S. Milner, and Nathaniel F. Stankard

DEPARTURES

The Council's senior economists, in most cases, are on leave of absence from faculty positions at academic institutions or from other government agencies or research institutions. Their tenure with the Council is usually limited to 1 or 2 years. Many of the senior economists who resigned during the year returned to their previous affiliations. They are Christopher D. Carroll (Johns Hopkins University), Aaron S. Edlin (University of California, Berkeley), Jon D. Haveman (Purdue University), and Sanders D. Korenman (Baruch College of the City University of New York). Keith Fuglie returned to the U.S. Department of Agriculture, and he has since accepted a position with the International Potato Center. Senior economists who resigned during the year and accepted new positions are: Maria J. Hanratty (University of Minnesota), Randall W. Lutter (American Enterprise Institute (AEI) and AEI-Brookings Joint Center for Regulatory Studies), Adele C. Morris (Department of the Treasury), and Jeremy B. Rudd (Department of the Treasury).

Staff economists are generally graduate students who spend 1 year with the Council and then return to complete their dissertations. Those who returned to their graduate studies in 1998 are Amy N. Finkelstein (Massachusetts Institute of Technology), Mark R. Hopkins (University of Wisconsin-Madison), and Mark C. Rainey (Massachusetts Institute of Technology). Sarah J. Reber began graduate studies at Harvard University. After serving as a research assistant at the Council, Zachary M. Candelario accepted a position at Mars and Company. Research assistants who began graduate studies in 1998 are Melissa A. Clark (Princeton University) and Ha Yan Lee (London School of Economics). Daniel K. Chang began studies at Georgetown University Law Center.

Public Information

The Council's *Annual Report* is an important vehicle for presenting the Administration's domestic and international economic policies. It is now available for distribution as a bound volume, on CD-ROM, and on the Internet, where it is accessible at http://www.access.gpo.gov/eop. The Council also has primary responsibility for compiling the monthly *Economic Indicators*, which is issued by the Joint Economic Committee of the Congress. The Internet address for the *Economic Indicators* is www.access.gpo.gov/congress/cong002.html.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JAN-1999 10:39:35.00

SUBJECT: Request Meeting on chapter 2 issues

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

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

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

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

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

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

CC: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
I estimate that I will need 15 to 30 minutes to bring a few Macro Chapter issues to the attention of Members. I would like to raise these issues: (I will pass around paper copies of the charts and tables shortly.)

1) Design of table 2-3: Accounting for Growth in Real GDP, 1973 -2007

a) This table has traditionally has had 4 columns (3 historical and 1 forecast column). I propose to elimate one historical column (1960-73) and add an additional projection column. The projection period would be divided into 2 subperiods: 1) 1998:Q3 to 2001:Q4, the "sub-potential" period, and 2) 2001:Q4 to 2007:Q4 the potential period. The advantage of this layout is that it would explicitly show the supply-side components of a period of potential growth.

b) With the extra column, do we still need footnote 5? The advantage of leaving it in is that it would allow us to show a period of

2.5 potential growth.

c) I think we still need a subcolumn for the 1990-98 period, showing the difference between the income- and product-side measures on consistency grounds (we did this in each of the past 2 years). Others may think that this complicates the table too much.

2) Chart 2-14 Core CPI Inflation: Actual vs. Phillips Curve Simulations

Although this was referred to in the text, members have not seen the chart before. I want to make sure that there are no problems.

3) Chart 2-10 Potential GDP growth by Okun's Law.

What should I do for the 1998 datapoint? Should I guess at GDP for 1998:Q4 (which will lead to a 2.5% estimate of potential) or use the 4 quarters ending in 1998:Q3 (which will estimate potential GDP at 2.45%)?

4) Should I include the chart on participation rates of Women who maintain families?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JAN-1999 15:27:20.00

SUBJECT: Treasury final feedback on chapter 6-7 and 1

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

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

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

TEXT:
See the message below by Caroline Atkinson. I toned down the first paragraph of chapter 6. Some of the same might have to be done for chapter 1. I do not know if they have extra comments on chapter 1.
Nouriel

---------------------- Forwarded by Nouriel Roubini/CEA/EOP on 01/22/99 03:24 PM ---------------------------

"ATKINSONC%DOM13.DOPO8" <CAROLINE.ATKINSON @ treas.sprint.com>
01/22/99 02:11:40 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Private sector involvement -Reply

Date: 01/22/1999 03:05 pm (Friday)
From: Caroline Atkinson
To: DOM13.DOPO8(GOODMANM, HALTMAIERJ, JASKOWIAKM, MARCUSA, SETSERB),
EX.MAIL("Nouriel_Roubini@cea.eop.gov")
-Reply

thanks nouriel: have already missed noon deadline, sorry. on ch 6, (and summary for ch1) I think you are too "scary" about what's happening in the world (precipitous decline in growth, etc) just a matter of toning down some adjectives, I think

>>> EX.MAIL."Nouriel_Roubini@cea.eop.gov" 01/22/99 11:42am >>>
Can I get by noon today all remaining comments on the two chapters as I

need to give a clean copy
to CEA members by COB for final weekend reading?
Thanks, Nouriel

Message Sent
To:____
"GOODMANM%DOM13.DOPO8" <Mary.Goodman @ MS01.DO.treas.sprint.com>
"HALTMAIERJ%DOM13.DOPO8" <JANE.HALTMAIER @ MS01.DO.treas.sprint.com>
"JASKOWIAKM%DOM13.DOPO8" <MARK.JASKOWIAK @ treas.sprint.com>
"MARCUSA%DOM13.DOPO8" <Anthony.Marcus @ MS01.DO.treas.sprint.com>
"SETSERB%DOM13.DOPO8" <BRAD.SETSER @ treas.sprint.com>
Nouriel Roubini/CEA/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph J. Minarik (CN=Joseph J. Minarik/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:22-JAN-1999 21:01:00.00

SUBJECT: Comments on Chapter 1

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

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

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

TEXT:
You will find a marked copy of Chapter 1 in your doorway. I hope that it
is helpful.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-JAN-1999 14:22:29.00

SUBJECT:

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

TEXT:
Stu Eizenstadt called me to say that the JEDG meetings have been cancelled for the time being in order to avoid the appearance of political influence on the Israeli elections.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph J. Minarik (CN=Joseph J. Minarik/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:22-JAN-1999 17:15:31.00

SUBJECT: Chapter 1 of ERP

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

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

TEXT:
I will have comments on Chapter 1 to you before I leave. It may be late, but they will get there. Sorry if this creates any inconvenience.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-JAN-1999 09:39:45.00

SUBJECT: Re: Comments on Chapter 1

TO: Joseph J. Minarik (CN=Joseph J. Minarik/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TEXT:
Esteemed, honorable colleague:

Many thanks for your comments on Chapter 1, all of which are extremely helpful and well-taken.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-JAN-1999 17:04:57.00

SUBJECT: Extra comments by Treasury on Ch. 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:
Find below some extra suggestions by Treasury on how to change the beginning of chapter 6 to make it less "dramatic". I already toned down that a bit but I may do a little more to address their remaining concerns; some of these may also have relevance for chapter 1.
I am also going through all the comments by Jeff to incorporate them in a hopefully final draft for Sunday.
Janet, look forward to getting your comments too.
Nouriel

---------------------- Forwarded by Nouriel Roubini/CEA/EOP on 01/23/99 05:01 PM ---------------------------

"HARLOWR%DOM13.DOPO8" <ROBERT.HARLOW @ MS01.DO.treas.sprint.com>
01/22/99 03:52:53 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: "AtkinsonC%Dom13.DOPO8" <CAROLINE.ATKINSON @ treas.sprint.com>, "GagnonJ%Dom13.DOPO8" <JOE.GAGNON @ treas.sprint.com>, "SetserB%Dom13.DOPO8" <BRAD.SETSER @ treas.sprint.com>
Subject: Ch. 6

Date: 01/22/1999 04:40 pm (Friday)
From: Robert Harlow
To: EX.MAIL."nouriel_roubini@cea.eop.gov"
CC: AtkinsonC, SetserB, GagnonJ
Subject: Ch. 6

Brad has pointed out Caroline's concern that language in the beginning part of the chapter overdramatizes the current world macro situation. I think this is a problem just for the first page or two, when everything is being said in brief summary form.
I see two specific difficulties (see the beginning paragraph):
--most of the world is AFFECTED in some way, but only some countries

are in CRISIS. E.g., the US is affected (e.g. by lower X to Asia) but neither North America nor Europe is in any kind of crisis (in the sense that, say, Brazil or Korea are).
-- The beginning overview does not point out that things were worst in late summer/early fall, before a number of policy actions were put in place which improved the outlook. (The chapter makes this point later on.).

There are many ways to modify the tone, but one simple way might be to change the first page as follows:

-- para. 1, line 3: change to "erupted into a WIDER AND DEEPER ECONOMIC DISTURBANCE in 1998...
-- line 4: add A NUMBER OF before economies: " and to A NUMBER OF economies..."

-- para.2 Add at the beginning: "PROMPT POLICY ACTIONS AND SIGNS OF A TURNAROUND IN ASIA IMPROVED THE OUTLOOK LATER IN 1998. STILL, by late 1998, a third..."

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-JAN-1999 09:41:40.00

SUBJECT: Minarik comments

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

TEXT:
Joe Minarik left us comments on Chapter 1 last night. I have them, so give me a call when you get in and I will pass them along.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Severin Borenstein <borenste@Haas.Berkeley.EDU> (Severin Borenstein <borenste@Haas.Berkeley.EDU> [UNKNOWN])

CREATION DATE/TIME:24-JAN-1999 20:29:52.00

SUBJECT: recent pubs

TO: Thomas Marschak <marschak@socrates.berkeley.edu> (Thomas Marschak <marschak@socrates.berkeley.edu> [UNKNOWN])
READ:UNKNOWN

TO: Richard Lyons <lyons@haas.Berkeley.EDU> (Richard Lyons <lyons@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

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

TO: James Wilcox <jwilcox@haas.Berkeley.EDU> (James Wilcox <jwilcox@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: "David I. Levine" <levine@haas.Berkeley.EDU> ("David I. Levine" <levine@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Ben Hermalin <bh36@cornell.edu> (Ben Hermalin <bh36@cornell.edu> [UNKNOWN])
READ:UNKNOWN

TO: Richard Meese <meese@haas.Berkeley.EDU> (Richard Meese <meese@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Michael Katz <katz@haas.Berkeley.EDU> (Michael Katz <katz@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Jonathan Leonard <leonard@haas.Berkeley.EDU> (Jonathan Leonard <leonard@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: gertler@haas.Berkeley.EDU (gertler@haas.Berkeley.EDU [UNKNOWN])
READ:UNKNOWN

TO: Carl Shapiro <shapiro@haas.Berkeley.EDU> (Carl Shapiro <shapiro@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: EAP Faculty -- Andrew Rose <arose@haas.Berkeley.EDU> (EAP Faculty -- Andrew Rose <arose@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TEXT:
I am preparing the EAP ISR. Please send me a list of anything you have
published in the last year, or is forthcoming, so I can brag on us.
Articles, books, oped pieces, etc, are welcome.

Please do this right away. I need to have this wrapped up, circualted to you all, and then sent to the dean's office by Wednesday.

s

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-JAN-1999 16:26:47.00

SUBJECT: E-Commerce

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

TEXT:
This is the email I received concerning the E-commerce meeting I mentioned. It gives the agenda for the meeting I attended.
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 01/24/99 04:25 PM ---------------------------

Rhonda Melton @ OVP
01/13/99 09:55:38 AM
Record Type: Record

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

MEMORANDUM FOR

State (Eisenstadt); Treasury (Summers); Justice (Fisher); Commerce (Pincus); FTC (Pitofsky); FCC (Kennard); USTR (Novick); CEA (Yellin); OSTP (Lane); SBA (Hochberg), WH/IGA (Mickey Ibarra), WH/Legislative Affairs (Chuck Brain)

FROM: David Beier, OVP and Sally Katzen, NEC

RE: Meeting on Electronic Commerce Agenda for 1999

Summary:

We would like to have a meeting on January 15, 1999 at 4:15pm p.m. in Room 276 OEOB (VP Ceremonial Office) to discuss the Administration,s e-commerce agenda. Please RSVP by calling Shannon Mason at 456-2800.

Promoting electronic commerce in the U.S. and abroad is a top Administration priority. Over the last several years, information technology has accounted for 1/3 of U.S. economic growth, and some experts predict that U.S. business-to-business electronic commerce alone could reach $1.3 trillion by the year 2003. The Administration is off to an excellent start on its e-commerce agenda, with major legislative victories in 1998 on Internet taxation, intellectual property, children,s privacy, and electronic signatures.

To maintain that momentum, we would like to propose a structure for managing the initiative, with responsibilities given to agencies to manage specific components of the initiative. It will be necessary to create some new inter-agency working groups to make progress on the agenda items that the President and Vice-President unveiled in the December 1998 e-commerce event.

Proposed Structure

The proposed structure builds on the interagency Working Group that was co-chaired by Ira Magaziner and David Beier, but (1) creates a senior-level Steering Committee; (2) delegates more authority and responsibility to agencies on specific e-commerce issues; and (3) creates task forces to develop and implement policy where no appropriate inter-agency mechanism exists.

1. David Beier and Sally Katzen will serve as the Chair and Vice Chair of the e-commerce initiative.

2. There will be a Steering Committee composed of senior-level officials from the relevant agencies, including State (Eisenstadt); Treasury (Summers); Justice (Fisher); Commerce (Pincus); FTC (Pitofsky); FCC (Kennard); USTR (Novick); CEA (Yellin); OSTP (Lane); and SBA (Hochberg). This group will meet to review the Administration,s e-commerce agenda and work plan, and to review cross-cutting policy issues as appropriate. This structure is generally similar to the group convened by Todd Stern to coordinate the work done on Global Climate Change. The Steering Committee on electronic commerce will, however, meet less frequently.

3. There will be an interagency Working Group that will meet more frequently to make progress on the overall execution and coordination of the e-commerce agenda.

4. There will be a limited number of task forces created to develop policy and make progress in specific areas. Although these will be chaired by particular agencies, all agencies are welcome to participate.

Consumer Protection (Commerce with FTC)

Broadband networks (Commerce and Justice)

Consumer law/payment issues (Commerce and Treasury)

Market Access (USTR)

Developing Countries (State)

Content (including gaming, cultural diversity and indecent material)(Commerce with Justice)

Standards (Commerce)

The following White House staff will be assigned to work with the Task Forces (on Developing Countries, Audrey Choi, Content, Jim Kohlenberger, and Broadband, Tom Kalil).

5. There will be two projects that do not require task forces, one on developing a better understanding of the digital economy, and another on promoting small business use of the Internet.

6. In some areas of e-commerce policy, the work will continue to be handled as it has in the past. For example, NEC coordinates privacy policy and intellectual property rights policy. There is a separate NSC-led process on encryption policy. Tax-related issues will be handled by the Department of Treasury after appropriate consultation with other affected agencies.

Agenda for E-commerce Meeting
January 15, 1999
Room 276, OEOB

1. Review implementation plan for Electronic Commerce Steering Committee.

2. Discuss Advisory Committee on Electronic Commerce (Internet tax) and the appropriate Administration role.

3. Review likely Congressional Internet-related legislative and oversight activities.

Message Sent
To:____

jayne.schreibero @ usdoj.gov
apincus @ doc.gov
Audrey Choi/OVP @ OVP
Shannon Mason/OPD/EOP
Neal Lane/OSTP/EOP
Mickey Ibarra/WHO/EOP
Charles M. Brain/WHO/EOP
Janet L. Yellen/CEA/EOP
Jim Kohlenberger/OVP @ OVP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-JAN-1999 16:57:05.00

SUBJECT: Re: E-Commerce

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

TEXT:
Janet:

Thanks. I went to the meeting this past friday and David laid out the agenda. I am not as yet assigned to one of the task forces but I imagine I will be soon, and probably the one dealing with deployment of "broadband" infrastructure. I'll keep you posted.

HS

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-JAN-1999 17:33:00.00

SUBJECT: Saturday's version of paper for Hill

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

TEXT:
revisions under way currently, but this gives you an idea of Jeff's
approach (including at least some of my comments on the previous version)

---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on
01/24/99 05:33 PM ---------------------------

Jeff B. Liebman
01/23/99 04:13:11 PM
Record Type: Record

To: Melissa G. Green/OPD/EOP, Jonathan Orszag/OPD/EOP, Douglas W.
Elmendorf/CEA/EOP
cc:
Subject: latest version of paper for hill

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D79]MAIL40564642M.036 to ASCII,
The following is a HEX DUMP:

STRENGTHENING SOCIAL SECURITY AND MEDICARE BY PRESERVING FISCAL DISCIPLINE

Reagan-Bush Deficits Made it Unlikely that Social Security Would Be Paid Back What it Was Owed. The 1983 Social Security reforms intended for the government to set aside the excess of Social Security revenues over benefits, so that the country would be strong enough fiscally to pay back the Social Security trust fund in the future. Instead, the Reagan-Bush deficits used up the Social Security surpluses, When President Clinton took office in 1993, large deficits were expected to persist for decades to come, and there were serious doubts about how the country would come up with the funds to pay back the Social Security trust fund.

In 1993 President Clinton and Congressional Democrats Turned Things Around. The 1993 budget, passed without a single Republican vote (true?), put the country on a path of prosperity and fiscal responsibility. In 1998 surplus was $69 billion instead of the y billion deficit that CBO predicted when President Clinton took office in 1992. In the Fiscal Year 1999 budget, we were predicting large surpluses persisting into the middle of the next century, even after meeting all of our obligations to Social Security.

In his State of the Union Address, President Clinton Called for Us to Continue on this Fiscally Responsible Course. The President has called for setting aside 62 percent ($2.7 trillion) of the unified budget surplus over the next 15 years to help pay Social Security benefits in the future. Another 15 percent ($680 billion) would be set aside to pay for Medicare. Rather that squandering the surpluses on a tax cut for the rich or new spending programs, President Clinton is calling for taking the responsible course of setting these funds aside to help provide for the fiscal challenges ahead caused by the aging of American.

The Plan will Reduce the Nation's Publicly Held Debt and Increase the Savings Rate. Under the President's plan, debt held by the public that was 5x percent of GDP when President Clinton took office and is 44 percent today is projected to fall to around 7 percent in 2014 and to continue falling after that. This will be the lowest debt to GDP level since 1917. National savings has increased from x percent when President Clinton took office to y percent today. Buy setting aside the surpluses rather than spending them, this plan will increase the national savings rate by another 2 percent of GDP. The USA accounts will add even further to national savings.

The Rest of the President's Proposal Invests in the Future As Well. In addition to Strengthening Social Security and Medicare, the President's proposal provides USA accounts to help every American build the wealth they will need to finance longer lifespans. The plan also makes important investments in military readiness and education that will enable the country to continue to be strong and prosperous.

HOW THE PRESIDENT'S PLAN STRENGTHENS SOCIAL SECURITY AND MEDICARE

The President Believes that Most of the Surplus Should be Set Aside to Strengthen Social Security and Medicare. We must take advantage of the current good times to provide for the fiscal challenges that will face us as the baby boomers retire and as life expectancies continue to rise.

The President's plan sets aside these funds to help meet our future obligations to Social Security and Medicare in two ways.

-- First, with 21 percent of the surpluses that are allocated to Social Security (21 percent of the 62 percent), the President proposes to purchase private equities for the Trust Fund. Then, when the time comes to pay benefits, the Social Security Trust Fund will sell the equities.

-- Second, with 79 percent of the surpluses allocated to Social Security (79 percent of the 62 percent), and with all of the surpluses transferred to Medicare, the plan proposes to buy back government debt held by the public (Treasury bills, notes, and bonds) and to give bonds of equal value to the OASDI and HI trust fund. Thus, the Social Security trust fund will receive an additional $2.2 trillion in special purpose Treasury bonds and the Medicare trust fund will receive an additional $580 billion in bonds.

By setting aside these funds, the plan will cause a tremendous amount of new capital formation to occur. The debt to GDP ratio will fall from 44 percent today to 7 percent in 1914 -- the lowest level since 1917. The impact of using the surpluses to pay down national debt will raise the national savings rate by about 2 percent per year. The resulting increase in the capital stock will raise workers' productivity and national income. These additional real resources will increase the future standard of living, and give us the wherewithal to pay back the Social Security trust fund when the trust fund redeems its bonds.

How Paying Off Debt Helps Meet the Financial Challenges Facing America in the Future
Paying off debt means that the government owes less money to private individuals. Thus, it improves the government's financial position.

-- Paying off debt reduces debt servicing costs -- thereby increasing future budget surpluses and freeing up additional resources for other uses.

-- Paying off debt means that private savings go into productive private investments rather than into government borrowing. The resulting increase in the capital stock raises workers' productivity and national income. These additional real resources will increase the future standard of living, and make it easier to pay back the Social Security trust fund when it redeems its bonds.

-- Paying down debt also means that if the government later decided to finance some obligations by issuing new debt -- for example if there was a transition period before Social Security's revenues and benefits were in line -- it would be possible to do so without threatening future economic performance, and while keeping debt to GDP ratios below current levels.

What Happens When Trust Fund Assets Are Redeemed to Pay Benefits

- When Social Security revenue from the payroll tax and the taxation of benefits falls short of what is needed to pay benefits (around 2013), Social Security starts redeeming the assets of the trust fund.

  -- Some of the assets the trust fund will be redeeming will be stocks that it can simply sell without having to find other financing.

  -- The rest of the assets will be bonds. Redeeming these bonds means that Social Security gets money to pay benefits from the general fund of the government. Thus the government must come up with the cash for Social Security.

  -- If the government is running a unified budget surplus at the time, it can simply use the surplus to pay the Social Security benefits. This will reduce the surpluses available to pay for other things. Under our current projections, we will be running surpluses <u>even after paying back Social Security</u> well into the next century.

  -- Otherwise, the government has three standard choices for how to get the cash for Social Security -- it can issue debt, raise taxes, or reduce other spending.

  -- The ratio of debt held by the public to GDP is projected to be close to zero at the time when we start paying back Social Security. Thus we could issue debt to pay back Social Security and still keep debt-to-GDP ratios below those that we have today.

  -- Moreover, after we make the tough choices to extend the system for 75 years we will likely have closed the gap between taxes and spending in the period before 2055.

  -- So the key point is that under current projections we will be able to keep our promises to the Social Security trust fund through 2055 without putting undue pressure on other parts of the budget, raising taxes, or creating mountains of debt.

Why the Double Counting Critique is Invalid. Some have questioned the economic plan laid out in the President's State of the Union Address on the grounds that it "double counts" Social Security payroll revenue by crediting the Social Security and Medicare trust funds with a portion of the unified budget surplus even though the unified budget surpluses are in part due to Social Security surpluses.

<u>This is not the right way to think about the economic impact of the President's plan</u>.

- Currently, the government as a whole is running a surplus -- it is bringing in more in revenue than it is paying out.
- The fundamental question for our budget policy is what to do with the excess.
- The President is proposing that most of it be set aside to pay for future retirement and health needs stemming from the aging of America. This will add to national savings and improve the country's wealth. This is in contrast to those who propose using the surplus for tax cuts or immediate spending needs.
- The President's plan allocates the unified budget surplus to different uses, just as every budget has done for the last 30 years. The funds the President is setting aside for Social Security and Medicare are real and would presumably go to tax cuts or new spending if they were not set aside for debt reduction. This is the first time a President has called for some of the surplus to be set aside for debt reduction.
- We believes that it is sensible to credit the Social Security and Medicare for each dollar of debt reduction that is achieved. These important programs deserve to share in the economic gains created by fiscal responsibility. In addition, by allocating the gains from debt reduction to Social Security and Medicare it locks away the surpluses and prevents them from being squandered on tax cuts or new spending.

How this plan reduces the government's total indebtedness

- The debt held by the public is the most commonly used measure of debt, since it tells us the extent to which government borrowing crowds out private capital accumulation.
- A more comprehensive measure of the government's future obligations would include the government's liability from the fact that current law Social Security benefits are expected to exceed revenues.
    - -- The current assets of the Social Security trust fund are not a good measure of these benefit promises. People are expecting benefits well past the 2032 trust fund exhaustion date.
    - -- Some critics are wrongly arguing that we should not talk about debt held by the public and should focus on total debt defined as the Social Security trust fund assets plus the debt held by the public. They argue that when we pay off a dollar of publicly held debt and give the trust fund a treasury bond instead we have not changed the government's total indebtedness.
    - -- This argument is wrong. Our future obligations to Social Security are defined by benefit rules. These obligations do not increase when we give the trust fund a

bond. On the contrary, by reducing debt outstanding we are reducing the government's total future obligations, correctly measured. By crediting the trust fund for our debt reduction, we are saying that we want to allocate some of the improvement in the government's net wealth to the Social Security system.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:24-JAN-1999 19:41:14.00

SUBJECT: Additional text for Chapter 4

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

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

CC: Cordelia_W._Reimers@cea.eop.gov (Cordelia_W._Reimers@cea.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
Janet and Becky: Attached to this message is the text for the aging chapter that discusses the adequacy of retirement savings -- it has been fact checked and edited by Mike. This text was not included in the last draft that you read, so I wanted to make sure you had a chance to read it. We can make whatever changes are needed once it gets back from WH graphics.

P.S. It is one page in length.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D13]MAIL45675642S.036 to ASCII,
The following is a HEX DUMP:

ARE OLDER WORKERS SAVING ENOUGH FOR RETIREMENT?

One reason why it is important to know the level of wealth holdings of older persons is to determine whether they will have enough resources in retirement. Answering this question is difficult for a variety of reasons, including the fact that life expectancy, future interest rates, streams of income, and needs during retirement are highly uncertain. Moreover, to address this question one must first define what one means by "enough.". Recent studies have defined "enough" as the amount of resources that preretirees need to maintain their current standard of living throughout retirement. These studies take into account the fact that postretirement expenditures that are needed to maintain the preretirement standard of living are 20 to 30 percent smaller than preretirement expenditures (which include, for example, work-related expenses). This translates into an income "replacement rate" of 70 to 80 percent.

It has been found that among persons aged 51 to 61 in 1992, the wealth level required to generate income throughout retirement that is consistent with a replacement rate of 70 percent is $564,900. These people are projected to have assets (including financial wealth, net home value, pension wealth, and social security wealth) worth $445,300 when they retire, for a savings shortfall of $119,600. To eliminate this shortfall, households in this group would need to save 23 percent of annual income in each year until retirement. Alternatively, they could retire later than expected. Not surprisingly, estimates of the savings shortfall are sensitive to several assumptions. However, in most cases the saving rate that persons approaching retirement need to achieve is higher than their actual saving rate.

These estimates mask substantial variation within the population approaching retirement. In fact, using the approach described above, it has been found that roughly 30 to 40 percent of people approaching retirement do not need to increase their saving out of earnings. Finally, although several theories have been advanced to explain why so many people have a savings shortfall, the empirical evidence is scant.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert_F._Schoeni@cea.eop.gov (Robert_F._Schoeni@cea.eop.gov [UNKNOWN])

CREATION DATE/TIME:24-JAN-1999 19:46:50.00

SUBJECT: Additional text for Chapter 4

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

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

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

TEXT:
Janet and Becky: Attached to this message is the text for the aging chapter that discusses the adequacy of retirement savings -- it has been fact checked and edited by Mike. This text was not included in the last draft that you read, so I wanted to make sure you had a chance to read it. We can make whatever changes are needed once it gets back from WH graphics.

P.S. It is one page in length.

(See attached file: retsave2.wpd)
- retsave2.wpd=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D28]MAIL44185642S.036 to ASCII,
The following is a HEX DUMP:

ARE OLDER WORKERS SAVING ENOUGH FOR RETIREMENT?

One reason why it is important to know the level of wealth holdings of older persons is to determine whether they will have enough resources in retirement. Answering this question is difficult for a variety of reasons, including the fact that life expectancy, future interest rates, streams of income, and needs during retirement are highly uncertain. Moreover, to address this question one must first define what one means by "enough.". Recent studies have defined "enough" as the amount of resources that preretirees need to maintain their current standard of living throughout retirement. These studies take into account the fact that postretirement expenditures that are needed to maintain the preretirement standard of living are 20 to 30 percent smaller than preretirement expenditures (which include, for example, work-related expenses). This translates into an income "replacement rate" of 70 to 80 percent.

It has been found that among persons aged 51 to 61 in 1992, the wealth level required to generate income throughout retirement that is consistent with a replacement rate of 70 percent is $564,900. These people are projected to have assets (including financial wealth, net home value, pension wealth, and social security wealth) worth $445,300 when they retire, for a savings shortfall of $119,600. To eliminate this shortfall, households in this group would need to save 23 percent of annual income in each year until retirement. Alternatively, they could retire later than expected. Not surprisingly, estimates of the savings shortfall are sensitive to several assumptions. However, in most cases the saving rate that persons approaching retirement need to achieve is higher than their actual saving rate.

These estimates mask substantial variation within the population approaching retirement. In fact, using the approach described above, it has been found that roughly 30 to 40 percent of people approaching retirement do not need to increase their saving out of earnings. Finally, although several theories have been advanced to explain why so many people have a savings shortfall, the empirical evidence is scant.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 16:51:09.00

SUBJECT: killing two birds ...

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TO: Bert I. Huang (CN=Bert I. Huang/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

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

TEXT:
To remind the President that we are still in business despite our baggy-pants attire and baggy eyes, I propose that we do a WEB this week. BUT, what I propose is that we have a GDP Scorecard on the final 1998 numbers from Steve and an article that summarizes the upcoming ERP. This would consist of half-page summaries/highlights of the chapters. We need to do this anyway to prepare material for press briefings, Janet's speech, etc. AND, if we can't fact check summaries of the chapters we are really in trouble

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Severin Borenstein <borenste@Haas.Berkeley.EDU> (Severin Borenstein <borenste@Haas.Berkeley.EDU> [UNKNOWN])

CREATION DATE/TIME:25-JAN-1999 12:54:40.00

SUBJECT: internal slot request

TO: Thomas Marschak <marschak@socrates.berkeley.edu> (Thomas Marschak <marschak@socrates.berkeley.edu> [UNKNOWN])
READ:UNKNOWN

TO: Richard Lyons <lyons@haas.Berkeley.EDU> (Richard Lyons <lyons@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

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

TO: Jonathan Leonard <leonard@haas.Berkeley.EDU> (Jonathan Leonard <leonard@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: "David I. Levine" <levine@haas.Berkeley.EDU> ("David I. Levine" <levine@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Ben Hermalin <bh36@cornell.edu> (Ben Hermalin <bh36@cornell.edu> [UNKNOWN])
READ:UNKNOWN

TO: Richard Meese <meese@haas.Berkeley.EDU> (Richard Meese <meese@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Michael Katz <katz@haas.Berkeley.EDU> (Michael Katz <katz@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: James Wilcox <jwilcox@haas.Berkeley.EDU> (James Wilcox <jwilcox@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: Carl Shapiro <shapiro@haas.Berkeley.EDU> (Carl Shapiro <shapiro@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TO: EAP Faculty -- Andrew Rose <arose@haas.Berkeley.EDU> (EAP Faculty -- Andrew Rose <arose@haas.Berkeley.EDU> [UNKNOWN])
READ:UNKNOWN

TEXT:
it appears that the last few paragraphs of what I sent last night got cut off, including sections on impending departures and likely yield from the school-wide searches. if you have already read the previous draft, please just take a look at the last two sections (and the last paragraph of the previous section.

Executive Summary

The Economic Analysis and Policy Group (EAP) requests permission to hire two junior faculty member next year (1999--00, appointments to begin July 1, 2000). One of these people would be an applied microeconomist and one would be a macroeconomist. At least one of these people would have expertise in international economics and would be able to teach BA287, the international trade course. Each would be expected to teach in the MBA/EMBA core. The EAP group should receive these positions because (a) EAP has been tremendously successful in teaching, winning more than one-third?? of all the school's Cheit teaching awards in the 1990s, (b) members of the group continue to publish in top academic journals and significantly influence both business and public policy, (c) the group is likely to lose two senior members by the end of this academic year, (d) the group is already very short of ladder faculty teaching relative to demand for its courses, a condition that will be exacerbated by the two likely departures, and (e) the group has no faculty less than 10 years from earning their Ph.D.; younger faculty tend to have fewer administrative commitments and help to form a stronger cohesive unit by their presence, as well as bringing vitality and new ideas to the group.

Curriculum

The EAP curriculum and teaching have been tremendously successful. Recent Haas graduates give the highest ratings of all MBA core courses to EAP's microeconomics and global macroeconomics. The courses are constantly updated, with many new readings each year. The Competitive Strategy Game, which was introduced in the micro course 3 years ago, is very popular with the students as a hands-on approach to learning effective business decision making. The global macroeconomics course is the only course in the core curriculum that is specifically focused on international business. In that course, during spring 1997, students learned about the impending asian economic crisis before it actually began. Both courses consistently receive median ratings of 6 or 7.

The EAP electives in competitive strategy and international finance are among the most popular in the school. Both were overbooked by about 100\% for the Spring 1999 semester. A third MBA/EMBA elective that EAP offers is BA287, international trade. Although the instructors for this course have been highly rated by the students, the enrollment has been very poor, 10-20 students. This course has not been taught by a ladder faculty in at least the last four years. Given the school's international theme and the popularity of international finance, it seems that it makes sense for the school to make a ladder-faculty commitment to building this course.\fnote{It has been pointed out the the international trade courses usually don't attract as many students as international finance in MBA programs, but the 10 to 1 enrollment ratio is way out of line with other schools.} EAP has no one who a particularly good fit for building that course. The only other EAP elective that has been taught in the last 3 years is BA212, a regulation/deregulation course that has been telecommunications focused (taught by Harris) in the past, but is focused on energy markets this year (co-taught by Borenstein and a visitor, Jim

Bushnell). It is drawing 30-40 students per year. So, with the exception of the international trade course, which we hope to address with one of our two hires next year, EAP teaching has been both very highly rated and very well attended. Unfortunately, the shortage of ladder faculty has prevented us from teaching many of the other electives on the books.

The shortage of ladder faculty teaching in EAP, which has been increasing over the last few years, has reached a very difficult state. This is due in part to the increasing administrative load that EAP faculty have taken on: Borenstein remains Director of the U.C. Energy Institute and is group chair, Katz is head of the Telecommunications Center, Rose and Lyons lead the Clausen Center, and Shapiro just began as Director of IBER. In our teaching plan for 99-00, EAP is scheduled to teach 126 instructional points worth of courses. Assuming Hermalin and Meese do not return, we will have 48 instructional points available from ladder faculty before deductions for thesis advising and independent study courses. Based on recent history, this will reduce to less than 40 points after accounting for theses and independent studies. Even if both Hermalin and Meese returned, an extremely unlikely outcome, we would still be able to staff less than half our courses with ladder faculty. This year, for the first time in many years, we are staffing 2 sections of the daytime MBA global macro core course with a visitor. Given the work that has gone in to planning, coordinating and fine tuning these courses, we think that teaching the EAP daytime core with visiting faculty is a mistake, but the staffing realities have left us no choice. Next year, we are probably going to staff both the daytime macro and micro with visitors for 2 of the 4 sections.

I will discuss how increases in EAP ladder faculty might allow us to develop new courses, but to be frank, we need these slots first to meet the demand that we already face. Without these slots, we will have to rely increasingly on visitors to teach MBA/EMBA core courses and competitive strategy. With these slots, Leonard and Hermalin (if he were to return) might be able to complete development of a course they have worked on that combines human resource economics with the economics of mechanism design. Leonard teaches electives in OBIR, which are very popular, but his time in EAP is used up entirely in core teaching. Shapiro and Katz are interested in developing an elective on competitive strategies in information intensive markets, based in part on the recent Shapiro/Varian best selling book on the subject, but they too are needed for staffing core and the competitive strategy course. Without additional ladder staffing, Borenstein will probably have to return to core/competitive strategy teaching, rather than continuing to develop 212 as a course on energy markets.

Research

EAP members continue to publish influential academic and business studies at a very rapid rate. All of ... The work is very broad and interacts with research in many of the other areas of the school. Ladder faculty who teach at least half time in EAP regulary attend the seminars of (or present work in) BPP, Finance, OBIR, and marketing.

While the EAP group is very active, prolific and broad, there are also some areas that are not covered or are undercovered. We have no one who is working of foreign direct investment, trade barriers, or most other topics in international trade. Of the six EAP faculty members primarily in microeconomics (Borenstein, Hermalin, Katz, Leonard, Marschak, and Shapiro), only Borenstein and Leonard are engaged in empirical work for some part of their research. More important than the specific areas of research, however, is the critical mass of researchers. Almost all of the EAP faculty have significant administrative assignments that take them away from the 6th floor. We need a larger base of EAP ladder faculty to create the colleagial research environment that is the goal of the school.

Likely Departures from EAP

As everyone knows, Ben Hermalin has accepted a position at Cornell's Johnson School of Management, and is on leave this year from Haas. Though we continue to work very hard to persuade Ben to return, realistically the probability is well below 0.5. We may have more information on this by March, but it will probably not be decided by then.

Dick Meese is on leave this year from Haas, working in the private sector at Barclays Global Investors. I have been in email contact with him recently and Andy Rose has spoken with him. To both of us, Dick indicated that he has not yet made up his mind about whether or not to return to Haas, but he thinks the probability is low that he will return. He said that he would decide by April 30.

School-Wide Searches

Haas is currently conducting two school-wide searches, one is information technology and one in management of technology. At this point it appears very unlikely (according to Mike Katz, who chairs the committee) that the IT position would be filled by someone who would have part of his/her position in EAP. The MoT search committee has narrowed its search to 4 flyouts. Two of them would almost certainly not be affiliated with EAP. The other two probably would not be affiliated, though there would be some question as to whether the non-MoT part of their appointment would be in BPP or EAP. Thus, it appears that there is a fairly low probability that EAP will gain any ladder faculty from these searches.

\bye

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 10:42:44.00

SUBJECT: Re: Lael & Chapter 6...

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

CC: Michele Jolin (CN=Michele Jolin/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 we should make the three changes and discuss the fourth. I assume that Lael has not seen chapter 1. The wording on the need for the U.S. to avoid a protectionist response is very strong and explicit there.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 11:27:58.00

SUBJECT: Budget

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

TEXT:
As you know, the budget will be released next Monday. I will probably need the usual type of brief statement and the comparison tables we normally have for such occasions. Do you currently have a draft of the Economic Assumptions part of the Budget document? I haven't seen it yet and would like to.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 09:56:27.00

SUBJECT: Files of ERP chapters as sent to Graphics

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

TEXT:
Janet,

I've put the current files at i:\erpfinal, with subdirectories by chapter.
Note that Chapters 1 and 2 are the versions as of midnight last night; I
will put the current versions (including your latest changes) on this
drive after I make the changes and send these chapters to graphics.

Mike

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 08:46:36.00

SUBJECT: message from lael

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

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

TEXT:
I forward the message I received from lael last nite at 9.00pm. I have not replied yet. I am frankly annoyed by the arrogant attidute of NEC. I spent the week sending lael & co. messages reminding them of the need for comments. they totally ignored us and did not even give us the courtesy of a reply to let me know if/when/how they would send comments. And then she comes after we finished the revisions and have a final draft and wants revisions. I am not going to change anything and will ignore her message.
Nouriel

---------------------- Forwarded by Nouriel Roubini/CEA/EOP on 01/25/99 08:41 AM ---------------------------

Lael Brainard
01/24/99 08:54:28 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Michele Jolin/CEA/EOP, Jeffrey A. Frankel/CEA/EOP
Subject: Chapter 6...

...is quite good, informative, useful.

I have approximately 3 small but important edits in the discussion of trade deficits. Page me if you want them tonight. Otherwise I will pass them on tomorrow am.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 12:08:29.00

SUBJECT: Chapters 1 and 2

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

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

TEXT:
Janet,

Chapter 1 is now ready to go to Graphics, so I have copied it to the \erpfinal\ directory. the for-Graphics version of Chapter 2 is also there now, too. So the set is complete.

Mike

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-JAN-1999 12:18:44.00

SUBJECT: Re: Budget

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

TEXT:
I will get you a copy of the economic assumptions part of the budget shortly. (I cannot locate my copy, which is out of data anyway.) CBO's budget forecast will come out at 10 am on Friday, although we already know their economic assumptions.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 16:17:57.00

SUBJECT: Electricity Restructuring

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

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

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

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

TEXT:
Janet and Jeff: I have been attending a number of staff level meetings on electricity restructuring. Perhaps next week, or the following week, this issue will rise to principals. I've attached a memo summarizing the important issues. I will be happy to provide more background as the need arises. Steve
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D6]MAIL408433727.036 to ASCII,
The following is a HEX DUMP:

To: Janet Yellen, Jeff Frankel

From: Steve Polasky

RE: Electric Restructuring

January 26, 1999

The Administration is planning on reintroducing its Comprehensive Electricity Competition Act this year to Congress. There have been a series of staff level interagency meetings over the past two weeks. Important unresolved issues will be brought to a principals meeting in a week (or two).

The main part of the Act remains unchanged from last year. In fact, there was a decision not to reopen any issues, including controversial environmental provisions, that had been previously decided. There are, however, several additional issues that are currently being considered that were not addressed last year. Most of these issues relate to how to treat public power generators, such as TVA and Bonneville Power Administration (BPA), in a (largely) deregulated competitive market. In addition, there are some additional items to provide various benefits for various groups (remote communities, Indian Reservations...).

1. "Level playing field."

I raised the following issue in the interagency process:

> CEA Concerns: The Administration is seeking to promote competition in sales of electric power at wholesale and retail levels. Do public agencies, such as TVA, face the same or similar rules as IOUs? To what extent is it desirable for all participants to compete under identical or similar rules? What measures should be adopted to ensure reasonably "fair" competition?

At the heart of this issue is the tax-exempt status of public generators. Private investor-owned utilities (IOUs) argue that the tax-exempt status of public utilities give them an unfair advantage in competition. The public agencies are adament about not changing the status quo on this issue. TVA alone would probably face tax payments somewhere on the order of $600 million per year.

It appears unlikely politically that the tax-exempt status for public power generators will be removed this year. If this does not occur, the question is how to ensure reasonably fair competition between public and private generators. Because of its size and ability to expand, the focus of this discussion will center on TVA. This Act proposes to remove "the fence," which has prohibited TVA from selling power outside the Tennessee Valley and other generators from selling inside the Valley. With removal of the fence, will TVA have an unfair advantage in competition? Is it reasonable to have tax-exempt status for some but not all market participants?

A related concern is the effect of competition on the electricity rates and profit of public generators. If a public generator is equally efficient as private generators but has tax-exempt status, it should earn rents in a competitive market. In the past public generators have charged cost-based rates, which may be below market rates. BPA has stated that they will charge cost-based rates (which are below market rates). TVA may set market rates with the potential that they could earn large rents. What happens to these rents? On the other hand, what happens if these agencies have can't cover costs with market rates? A particular concern on this front leads to the next issue.

2. Recovery of fish and wildlife and other generation costs.

BPA is likely to have major expenses in dealing with endangered Columbia River salmon stocks (estimates of $400 to 700 million per year). BPA and DOE have proposed that BPA be allowed to put a surcharge on transmission if BPA can't cover its costs with market rates. This provision would charge virtually everyone in the region for BPA costs, even those who choose to buy power from a BPA competitor but who would need BPA to transmit that power. The position that both Bob Cumby from Treasury and I have taken is that this is a power generation cost and should not assessed to transmission. BPA currently charges below market rates. The concern that BPA may not cover costs in the future is (perhaps) an argument for BPA put aside funds now by setting rates closer to market rates.

3. Additional TVA issues.

There are a number of issues about whether TVA should be subject to oversight by FERC in setting wholesale rates, retail rates, or in the determination of whether TVA has market power. I have not articulated a CEA stance on these issues in the meetings. However, I am convinced by DOE arguments that TVA should be subject to FERC oversight. (TVA argues that their mission is to provide low cost power and they should not be subject to FERC oversight.)

4. Various Subsidies.

There are a number of special provisions that have been added to the Act this year to help particular groups. These provisions include tax credits for power related projects on Indian Reservations, grants to support electrification of remote communities, authorization to fund the Southeast Alaska Intertie, and more favorable tax treatment for distributed generation and combined heat and power equipment. These provisions (with the <u>possible</u> exception of the last item) do not make sense on economic grounds. However, there seems to be a negative correlation between being able to support a provision on economic grounds and its support politically.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert_F._Schoeni@cea.eop.gov (Robert_F._Schoeni@cea.eop.gov [UNKNOWN])

CREATION DATE/TIME:26-JAN-1999 12:02:02.00

SUBJECT: Revised text

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

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

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

TEXT:
The last section of the aging chapter has been revised (again) to address some last minute comments. The revision (3 paragraphs in length) is attached. I wanted to give you an opportunity to review the text before the proofs arrive. Thank you.

(See attached file: retsave3.wpd)
- retsave3.wpd=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D1]MAIL46942762Q.036 to ASCII,
The following is a HEX DUMP:

ARE OLDER WORKERS SAVING ENOUGH FOR RETIREMENT?

One reason why it is important to know the level of wealth holdings of older persons is to determine whether they will have enough resources in retirement. Answering this question is difficult for a variety of reasons, including the fact that life expectancy, future interest rates, streams of income, and needs during retirement are highly uncertain. Moreover, to address this question one must first define what one means by "enough." Recent studies have defined "enough" as the amount of resources that preretirees need to maintain their current standard of living throughout retirement.

There is evidence that a significant share of the population approaching retirement is not saving enough to maintain their preretirement standard of living. It has been found that among households with a person 51 to 61 years old in 1992, the median-earning household ($30,000 in 1992 dollars) would need to save 18 percent of their income in the years up to retirement if they are to retire at age 62 and maintain their preretirement consumption levels throughout retirement. This required amount of savings is above and beyond the household's automatic contributions to Social Security and pensions. Postponing retirement to age 65 reduces the necessary saving rate to 7 percent. Actual saving rates for persons approaching retirement, which have been estimated at 2 to 5 percent, are smaller than these prescribed rates.

These estimates mask substantial variation within the population approaching retirement. It has been found that roughly 30 percent of households with persons 51 to 61 years old do not need to add to their savings above and beyond their automatic contributions to Social Security and pensions if they retire at age 62; this estimate would increase to 40 percent if retirement were postponed to age 65. At the same time, roughly two-thirds do need to add to their savings to maintain consumption throughout retirement. Finally, although several theories have been advanced to explain why so many people have a savings shortfall, the available empirical evidence is not conclusive.

To help Americans save enough to enjoy a more secure retirement, the President has proposed to reserve 12 percent of the projected unified budget surpluses over the next 15 years--averaging about $33 billion a year--to establish new Universal Savings Accounts (USAs).

Under the proposed plan, the government would match a portion of each additional dollar that a person voluntarily puts into his or her USA, with larger percentage matches going to lower income workers. These accounts will build on the current private sector pension system to enable all working Americans to build wealth to meet their retirement needs.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 13:20:44.00

SUBJECT: Hackers at the BLS

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

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

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

TO: Steven N. Braun (CN=Steven N. Braun/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:
Katharine Abraham called me to inform me and others at the CEA of the following:

Hackers broke into the BLS home page and changed it, adding Cyrillic text which evidently said something about striking Romanian mine workers. The BLS identified the problem almost immediately and rectified it (the "added material" was on the home page no more than 12 minutes.) Given recent problems with BLS data releases, Katharine wanted to be sure we had the correct story on this event and didn't misinterpret it. The hackers only broke into the public access part of the BLS system and did not penetrate their "firewall" behind which they keep all data and privileged information. BLS believes it has solved the problem that allowed this to happen (although prosecuting those who did it will probably be impossible, since it seems to have been done from a web address in Romania.)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 11:13:47.00

SUBJECT: talkg pts. for WH mtg. with labor leaders

TO: BLANK_R (BLANK_R @ A1 @ CD @ VAXGTWY [UNKNOWN]) (CEA)
READ:UNKNOWN

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

TEXT:
Janet,
This is a very rough outline. I have left lots of blanks for our staff to
fill in. And Becky will probably want to tweak the most laborish
sections. =================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D78]MAIL47051662S.036 to ASCII,
The following is a HEX DUMP:

CEA 1/26/99

Talking Points on the Roles of Manufacturing and Trade in the US Economy (for WH meeting with labor leaders)

- **The share of manufacturing in the economy:** While manufacturing output is growing, it is declining as a share of total GDP (e.g. from 18.0 % in 1990 to 17.4% in 1996 [-- Stat.Abstr.1998 no.716]). This is a very long-term trend that has persisted for 1__ years in U.S. history, and is consistent with the pattern in all industrialized countries. The offset: the large services sector is rising as a share of GDP.

    - There is tremendous diversity within each sector.

        - Within manufacturing, for example, high-tech (or aircraft)... while textiles and apparel (or footwear, toys...) ...

        - Within services, (construction, computer programmers, hamburger flippers...)

    - In many industries, US firms have made a come-back over the last six years, having restructured to remain competitive in the globalized world of the coming century.

        - Autos ...

        - Semi-conductors ...

        - Business investment has led the seven-year U.S. economic expansion...

        - Surveys of US "competitiveness"...

        - Productivity trends...

    - The flip side of higher productivity in the manufacturing sector (i.e., output per worker) is lower employment (workers per output).

        - Thus the downward trend in the manufacturing share of the economy is pronounced when one looks at employment.

        - Stats ...

- **The wage gap:** Another trend, which has held for 25 years, is the widening gap between wages of skilled and unskilled workers. Stats. It is not possible to pinpoint the causes for the widening gap, but most is thought to be associated with a rising return to education.

  - A small part may be due to factors such as decreased unionization. But most is attributed to an increase in the importance of education in a competitive world where workers are paid their marginal product.

  - The leading cause of the widened gap is thought to be increased demand for educated and skilled workers in a high-tech world.

  - Most estimates of the role of international trade assign it a share of only 5-30% responsibility.

    - This might understate the role of globalization, in that there is an interactive effect between the two factors: education and technology might not be as important as they are if the US were closed off from the rest of the world.

    - But Americans on average would have lower real incomes if we were closed off. Technological innovation and skills are our international comparative advantage; and international competition keeps industries like autos on their toes, which is why Detroit produces better and cheaper cars today than they did in the 1970s.

  - The increase in the wage gap may be leveling off. Most recent numbers...

    - A possible explanation is the large increase in the supply of highly educated workers that has responded to the demand for them.

    - Another explanation is that the economic expansion has progressed so far that even unskilled workers are in high demand.

- **The benefits of trade:** The U.S. economy derives important benefits from high levels of international trade.

  - The increase in exports from January 1993 until the East Asia crisis hit in mid-1997 contributed 1/3 of US growth over that period. Even including the period of the East Asia crisis, exports have contributed 1/4 of US growth (1993-98).

- In Commerce Department parlance, each $1 million of exports supports 13.0 jobs. In CEA parlance, each $1 million of exports is associated with 17.5 jobs. Thus the $ __ billion increase in exports corresponds to __ - __ jobs.

- Imports have also increased strongly during this period -- by more than exports, implying an increase in the trade deficit. But it would be wrong to figure that without the increase in the trade deficit, the US economy would have grown much more rapidly than it did.

    - Constraints of potential output and full employment... The alternative is crowding out (via inflation and interest rates) of domestic demand....

    - Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.

    - The current account balance equals saving minus investment. Unlike the higher deficits in the 1980s, deficits are increasing in the 1990s because of the investment-led boom. It is thus less a source of concern.

    - If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us.

        - The current crisis in emerging market countries offers a dramatic illustration of this general principle. When investors suddenly cut East Asia off from capital inflows in 1997, they were no longer able to finance their trade deficits, and thus were forced to start running trade surpluses in 1998 and 1999. Hence the fall in US exports to the region.

        - Our response to the crisis, working with the IMF and the rest of the international community, has worked to limit the fall in our sales, and lay the groundwork for a return to the preceding pattern of growth in the East Asians' incomes and imports from us.

- A world in which everyone's levels of exports of imports are high and rising (as opposed to the difference between them) together is a world in which everyone is growing.

    - Research both theoretical and empirical shows that countries that are highly open to trade have higher income levels and growth rates. (Classical comparative advantage and modern dynamic benefits...)

    - One statistical estimate is that every one-percentage-point increase in openness (holding constant for such important determinants as investment and education) raises income by .34 per cent. US openness (exports plus imports as a share of GDP) has increased by 12 points since 1950, implying an estimated effect on income of about 4%.

- Export jobs are good jobs. Workers in export-oriented firms earn 13-16% more than other workers [Commerce Dept. and Richardson]. Even after adjusting for various characteristics, workers in export-oriented firms earn more than others (10 % more within the category of skilled workers, 5% more within unskilled [Richardson-Rindahl)].

- Popular conceptions exaggerate the extent to which patterns of trade and investment are driven by the influence of cheap labor in poor countries. More than half of US trade and direct investment is undertaken with partners that have higher wages than us. Often they have more rigorous labor standards as well.

- **Difficulties of adjustment:** Despite the great benefits of trade, some sectors and individuals can be adversely affected.

  - The steel industry suffered a surge in imports in 1998. The latest figures suggest that the peak has passed and steel imports may in 1999 be returning toward more normal levels.

  - A number of sectors have lost out on the export side....

  - One might think that trade in general, even while raising average real incomes, increases adjustment costs as reflected in the number of job displacements. But increased exports reduces the number of displacements in export-oriented sectors at the same time that increased imports raises the number of displacements in import-competing sectors. One study of the 1980s estimates that these two effects were roughly equal, so that higher levels of trade had little or no effect on *total* displacements [Haveman].

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 18:08:29.00

SUBJECT: Cost/benefit guidelines

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

TEXT:
Janet: Don Arbuckle or Josh Gotbaum will likely call you sometime soon about having CEA head an interagency process on setting guidelines for agencies to follow in reporting costs and benefits of regulation to OMB. Randy was in charge of such a process last year. I have spoken with Art Fraas about being in charge this year. Steve

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. email	Michele Jolin to Rebecca M. Blank and Janet L. Yellen at 20:59:29.00. Subject: Jeff's Farewell Pary. (1 page)	01/26/1999	b(6)

COLLECTION:

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

FOLDER TITLE:

[01/21/1999 - 01/26/1999]

2013-0723-F
ab1293

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:26-JAN-1999 11:13:53.00

SUBJECT: Re: Lael & Chapter 6...

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

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

CC: Charles F. Stone (CN=Charles F. Stone/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 wrote:
>>>I agree we should make the three changes and discuss the fourth. I
assume that Lael has not seen chapter 1. The wording on the need for the
U.S. to avoid a >>>protectionist response is very strong and explicit
there.

I think we should stick with a strong anti-protectionist message in
chapter 1 and chapter 6 and disregard the fourth suggestion by Lael on
toning down our message. If Rubin can publicly take a strong
anti-protection stance (see below the account of his testimony today at
the Senate Finance Comm.), we can make as strong a statement as well. We
should hold the line on this with NEC.
Nouriel

Treasury's Rubin Says New U.S. Tariffs Could Damage Economy

Washington, Jan. 26 (Bloomberg) -- New tariffs
to protect industries threatened
by foreign imports could be ``very damaging" to
the U.S. economy, Treasury
Secretary Robert Rubin said.

U.S. steel companies have complained other
nations are ``dumping" steel here --
selling it for less than the cost of production
-- and Clinton administration
officials have warned Japan they are considering
imposing quotas, tariffs or
other measures to halt the flow of goods deemed
harmful to U.S. industry.

Rubin, however, said that kind of punitive action could be counterproductive. ``It would hurt our economy directly through higher costs to consumers and producers and higher inflation and quite possibly higher interest rates," Rubin told members of the Senate Finance Committee. He is testifying on trade issues with U.S. Trade Representative Charlene Barshefsky and Commerce Secretary William Daley.

Also, reducing access to U.S. markets could ``undermine" the prospects for economic recovery in the nations hit hard by the Asian financial crisis, ``a recovery so important to our economic well-being," Rubin said.

And any attempt to restrict U.S. markets ``could well reinforce the newly vibrant voices of protectionism" around the world, he said, ``and that is enormously against our economic interest."

The U.S. economy, Rubin said, is showing ``tremendous strength," in large part because of its open economy. ``We have low unemployment, rising wages across the board, and we have the most open markets among the major economies," he said. Europe and Japan are far less open than the U.S., he said, and the major economies of continental Europe have persistent unemployment of 10 to 12 percent, while Japan's economy is mired in a deep recession."

He acknowledged some areas of the economy have been hurt, pledging the administration is focused on helping ``those who are adversely affected by the dynamic change, due principally to technology and also to trade, that so benefits the American people overall and is critical to American success in the global economy."

Janet L. Yellen
01/25/99 10:41:03 AM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Jeffrey A. Frankel/CEA/EOP, Michele Jolin/CEA/EOP
Subject: Re: Lael & Chapter 6...

I agree we should make the three changes and discuss the fourth. I assume that Lael has not seen chapter 1. The wording on the need for the U.S. to avoid a protectionist response is very strong and explicit there.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 16:28:59.00

SUBJECT: Telecom report

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

TEXT:
Janet:

Joe Farrell has agreed to review the report confidentially for us. Also, what is your availability on Monday, 2/8 and Tuesday, 2/9, in case the VP's office wants to coordinate an event with Secretary Daley?

Thanks.

HS

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 13:28:56.00

SUBJECT: Memo on trade

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

TEXT:
---------------------- Forwarded by Jeffrey A. Frankel/CEA/EOP on 01/26/99
01:28 PM ---------------------------

Rebecca M. Blank
01/26/99 12:06:28 PM
Record Type: Record

To: Jeffrey A. Frankel/CEA/EOP
cc:
Subject: Memo on trade

Attached is my somewhat reworked version of your Talking Points memo.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D99]MAIL43980072W.036 to ASCII,
The following is a HEX DUMP:

CEA 1/26/99

Talking Points on the Roles of Manufacturing and Trade in the US Economy (for WH meeting with labor leaders)

- **The share of manufacturing in the economy:** While manufacturing output is growing, it is declining as a share of total GDP (e.g. from 18.0 % in 1990 to 17.4% in 1996 [-- Stat.Abstr.1998 no.716]). This is a very long-term trend that has persisted for 1__ years in U.S. history, and is consistent with the pattern in all industrialized countries. The offset: the large services sector is rising as a share of GDP.

  - There is tremendous diversity within each sector.

    - Within manufacturing, for example, high-tech (or aircraft)... while textiles and apparel (or footwear, toys...) ...

    - Within services, (construction, computer programmers, hamburger flippers...)

  - In many manufacturing industries, US firms are becoming increasingly competitive, having restructured to remain competitive in the globalized world of the coming century.

    - Business investment has led the seven-year U.S. economic expansion. (Focus explicitly on manufacturing)

    - Surveys of US "competitiveness" in manufacturing.

    - Productivity trends in manufacturing.

    - A few examples: Autos, semi-conductors

  - The flip side of higher productivity in the manufacturing sector (i.e., output per worker) is lower employment (workers per output).

    - Thus the downward trend in the manufacturing share of the economy is even more pronounced when one looks at employment shares in mftg.

- **Manufacturing and its Role in U.S. Trade**. Manufacturing's share of U.S. trade exceeds is overall share of U.S. production, making it a key sector for U.S. competitiveness abroad. (Is this true? Add whatever the correct statement is.)

<For Talking Points the following section seems too long...too many points so they all blue

together. But you can cut better than I.>

    - Comment on how trade in manufacturing has grown/shrunk over time, relative to shrinkage in the manufacturing sector in the U.S.

- **The benefits of trade:** The U.S. economy derives important benefits from high levels of international trade.

    - The increase in exports from January 1993 until the East Asia crisis hit in mid-1997 contributed 1/3 of US growth over that period. Even including the period of the East Asia crisis, exports have contributed 1/4 of US growth (1993-98).

        - In Commerce Department parlance, each $1 million of exports supports 13.0 jobs. In CEA parlance, each $1 million of exports is associated with 17.5 jobs. Thus the $ __ billion increase in exports corresponds to __ - __ jobs.

    - Imports have also increased strongly during this period -- by more than exports, implying an increase in the trade deficit. But it would be wrong to figure that without the increase in the trade deficit, the US economy would have grown much more rapidly than it did.

        - Constraints of potential output and full employment... The alternative is crowding out (via inflation and interest rates) of domestic demand....

        - Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.

        - The current account balance equals saving minus investment. Unlike the higher deficits in the 1980s, deficits are increasing in the 1990s because of the investment-led boom. It is thus less a source of concern.

        - If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us.

            - The current crisis in emerging market countries offers a dramatic illustration of this general principle. When investors suddenly cut East Asia off from capital inflows in 1997, they were no longer able to finance their trade deficits, and thus were forced to start running trade surpluses in 1998 and 1999. Hence the fall in US exports to the region.

            - Our response to the crisis, working with the IMF and the rest of the international community, has worked to limit the fall in our sales, and lay the groundwork for a return to the preceding pattern of growth in the East Asians' incomes and imports from us.

- A world in which everyone's levels of exports of imports are high and rising (as opposed to the difference between them) together is a world in which everyone is growing.

    - Research both theoretical and empirical shows that countries that are highly open to trade have higher income levels and growth rates. (Classical comparative advantage and modern dynamic benefits...)

    - One statistical estimate is that every one-percentage-point increase in openness (holding constant for such important determinants as investment and education) raises income by .34 per cent. US openness (exports plus imports as a share of GDP) has increased by 12 points since 1950, implying an estimated effect on income of about 4%.

- Export jobs are good jobs. Workers in export-oriented firms earn 13-16% more than other workers [Commerce Dept. and Richardson]. Even after adjusting for various characteristics, workers in export-oriented firms earn more than others (10 % more within the category of skilled workers, 5% more within unskilled [Richardson-Rindahl)].

- Popular conceptions exaggerate the extent to which patterns of trade and investment are driven by the influence of cheap labor in poor countries. More than half of US trade and direct investment is undertaken with partners that have higher wages than us. Often they have more rigorous labor standards as well.

- **Difficulties of adjustment to the growth in trade:** Despite the great benefits of trade, some sectors and individuals can be adversely affected.

    - The steel industry suffered a surge in imports in 1998. The latest figures suggest that the peak has passed and steel imports may in 1999 be returning toward more normal levels.

    - A number of sectors have lost out on the export side....

    - One might think that trade in general, even while raising average real incomes, increases adjustment costs as reflected in the number of job displacements. But increased exports reduces the number of displacements in export-oriented sectors at the same time that increased imports raises the number of displacements in import-competing sectors. One study of the 1980s estimates that these two effects were roughly equal, so that higher levels of trade had little or no effect on *total* displacements [Haveman].

- **How has trade contributed to the wage gap?** Another trend, which has held for 25

[Automated Records Management System Hex-Dump Conversion]

years, is the widening gap between wages of skilled and unskilled workers. Stats.
It is not possible to pinpoint the causes for the widening gap, but most is thought to be associated with a rising return to education due to shifts on the demand side of the labor market.

- The primary cause of rising wage inequality appears to be technological change. Increased demand for workers who can handle more complex equipment/information has produced increased the demand for more skilled labor and reduced the demand for less skilled labor.

- Most estimates of the role of international trade assign it a share of only 5-30% responsibility.

  - This might understate the role of globalization, in that there is an interactive effect between the two factors: education and technology might not be as important as they are if the US were closed off from the rest of the world.

  - But Americans on average would have lower real incomes if we were closed off. Technological innovation and skills are our international comparative advantage; and international competition keeps industries like autos on their toes, which is why Detroit produces better and cheaper cars today than they did in the 1970s.

- Affected by both changing technology and changes in international trade, there have also been changes in the institutional structure of the labor market. For instance, decreased unionization appears to be causally related to about 20 percent of the widening wage inequality.

- In the last three years, the wage gap has begun to narrow. Most recent numbers...

  - A possible explanation is the large increase in the supply of highly educated workers in response to rising demand.

  - Another explanation is that the economic expansion has progressed so far that even unskilled workers are in high demand.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 19:09:26.00

SUBJECT: deadlines for ERP Chapter proofs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TO: Bert I. Huang (CN=Bert I. Huang/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

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

TEXT:
The following are deadlines for proofreading:
-- Changes on proofs for Chapters 1, 4 and 7 should get to Mike by 9AM tomorrow.
-- Changes on proofs for Chapters 3 and 5 should get to Mike by 12 noon.
-- Changes on proofs for Chapters 2 and 6 should get to Mike by 1PM.
Obviously, the most important thing is to proof-read carefully and be sure that the Chapters are accurate. So, if you will have trouble meeting these deadlines while still ensuring accuracy, please let me know.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 13:34:20.00

SUBJECT: Re: Lael , Chapter 1 & Chapter 6...

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

TEXT:
Perhaps we should go back to our original wording on protectionism in Chapter 1. See the attached from Nouriel.
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 01/26/99 01:32 PM ---------------------------

Nouriel Roubini
01/26/99 11:04:08 AM
Record Type: Record

To: Janet L. Yellen/CEA/EOP
cc: Jeffrey A. Frankel/CEA/EOP, Michele Jolin/CEA/EOP, Charles F. Stone/CEA/EOP
bcc:
Subject: Re: Lael & Chapter 6...

Janet wrote:
>>>I agree we should make the three changes and discuss the fourth. I assume that Lael has not seen chapter 1. The wording on the need for the U.S. to avoid a >>>protectionist response is very strong and explicit there.

I think we should stick with a strong anti-protectionist message in chapter 1 and chapter 6 and disregard the fourth suggestion by Lael on toning down our message. If Rubin can publicly take a strong anti-protection stance (see below the account of his testimony today at the Senate Finance Comm.), we can make as strong a statement as well. We should hold the line on this with NEC.
Nouriel

Treasury's Rubin Says New U.S. Tariffs Could Damage Economy

Washington, Jan. 26 (Bloomberg) -- New tariffs to protect industries threatened by foreign imports could be ``very damaging'' to the U.S. economy, Treasury Secretary Robert Rubin said.

U.S. steel companies have complained other nations are ``dumping" steel here -- selling it for less than the cost of production -- and Clinton administration officials have warned Japan they are considering imposing quotas, tariffs or other measures to halt the flow of goods deemed harmful to U.S. industry.

Rubin, however, said that kind of punitive action could be counterproductive. ``It would hurt our economy directly through higher costs to consumers and producers and higher inflation and quite possibly higher interest rates," Rubin told members of the Senate Finance Committee. He is testifying on trade issues with U.S. Trade Representative Charlene Barshefsky and Commerce Secretary William Daley.

Also, reducing access to U.S. markets could ``undermine" the prospects for economic recovery in the nations hit hard by the Asian financial crisis, ``a recovery so important to our economic well-being," Rubin said.

And any attempt to restrict U.S. markets ``could well reinforce the newly vibrant voices of protectionism" around the world, he said, ``and that is enormously against our economic interest."

The U.S. economy, Rubin said, is showing ``tremendous strength," in large part because of its open economy. ``We have low unemployment, rising wages across the board, and we have the most open markets among the major economies," he said. Europe and Japan are far less open than the U.S., he said, and the major economies of continental Europe have persistent unemployment of 10 to 12 percent, while Japan's economy is mired in a deep recession."

He acknowledged some areas of the economy have been hurt, pledging the administration is focused on helping ``those who are adversely affected by the dynamic change, due principally to technology and also to trade, that so benefits the American people overall and is critical to

American success in the global
economy."

Janet L. Yellen
01/25/99 10:41:03 AM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc: Jeffrey A. Frankel/CEA/EOP, Michele Jolin/CEA/EOP
Subject: Re: Lael & Chapter 6...

I agree we should make the three changes and discuss the fourth. I assume that Lael has not seen chapter 1. The wording on the need for the U.S. to avoid a protectionist response is very strong and explicit there.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:26-JAN-1999 11:46:29.00

SUBJECT: Revised text

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

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

CC: Cordelia_W._Reimers@cea.eop.gov (Cordelia_W._Reimers@cea.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
The last section of the aging chapter has been revised (again) to address some last minute comments. The revision (3 paragraphs in length) is attached. I wanted to give you an opportunity to review the text before the proofs arrive. Thank you.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D28]MAIL46839662W.036 to ASCII,
The following is a HEX DUMP:

ARE OLDER WORKERS SAVING ENOUGH FOR RETIREMENT?

One reason why it is important to know the level of wealth holdings of older persons is to determine whether they will have enough resources in retirement. Answering this question is difficult for a variety of reasons, including the fact that life expectancy, future interest rates, streams of income, and needs during retirement are highly uncertain. Moreover, to address this question one must first define what one means by "enough." Recent studies have defined "enough" as the amount of resources that preretirees need to maintain their current standard of living throughout retirement.

There is evidence that a significant share of the population approaching retirement is not saving enough to maintain their preretirement standard of living. It has been found that among households with a person 51 to 61 years old in 1992, the median-earning household ($30,000 in 1992 dollars) would need to save 18 percent of their income in the years up to retirement if they are to retire at age 62 and maintain their preretirement consumption levels throughout retirement. This required amount of savings is above and beyond the household's automatic contributions to Social Security and pensions. Postponing retirement to age 65 reduces the necessary saving rate to 7 percent. Actual saving rates for persons approaching retirement, which have been estimated at 2 to 5 percent, are smaller than these prescribed rates.

These estimates mask substantial variation within the population approaching retirement. It has been found that roughly 30 percent of households with persons 51 to 61 years old do not need to add to their savings above and beyond their automatic contributions to Social Security and pensions if they retire at age 62; this estimate would increase to 40 percent if retirement were postponed to age 65. At the same time, roughly two-thirds do need to add to their savings to maintain consumption throughout retirement. Finally, although several theories have been advanced to explain why so many people have a savings shortfall, the available empirical evidence is not conclusive.

To help Americans save enough to enjoy a more secure retirement, the President has proposed to reserve 12 percent of the projected unified budget surpluses over the next 15 years--averaging about $33 billion a year--to establish new Universal Savings Accounts (USAs).

Under the proposed plan, the government would match a portion of each additional dollar that a person voluntarily puts into his or her USA, with larger percentage matches going to lower income workers. These accounts will build on the current private sector pension system to enable all working Americans to build wealth to meet their retirement needs.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 11:34:43.00

SUBJECT: Text of Rubin's testimony on trade

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

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

CC: Charles F. Stone (CN=Charles F. Stone/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:
Here is the full text of his testimony. He makes very good and strong points very similar to what we say in chapters 1 and 6.
We may even want to use similar wording (see bolded sections below) if the message on trade for chapter 1 is not finalized
Nouriel

FOR IMMEDIATE RELEASE
January 26, 1999
RR-2912

TREASURY SECRETARY ROBERT E.
RUBIN
TESTIMONY BEFORE THE SENATE FINANCE
COMMITTEE
ON GLOBAL ECONOMIC AND TRADE
INITIATIVES

Mr. Chairman, members of this Committee, I appreciate the opportunity to speak with you this morning about the Administration's trade policy and our strategy to open markets and expand trade. While Secretary Daley and Ambassador Barshefsky will speak in greater detail about our trade agenda, I want to make a few broader points about the importance of trade to our economy because the decisions we make on trade over the next few years will be some of the most important we will make as a nation with respect to our future prosperity.

We meet at a time of tremendous strength in the U.S. economy. Today, unemployment is 4.4 percent and it has been under 6 percent for the last four years. The economy has generated nearly 18 million new jobs over the last six years, and inflation has remained low. And wages are rising B across all income levels.

A number of factors have contributed to this strong economy including, very centrally, the private sector regaining its competitive edge over the last decade, and the President's broad based economic strategy of fiscal discipline, investing in people, and opening markets. And that last point B expanding trade, to which this Administration has been firmly committed and for which this Committee has been the keeper of the flame B has clearly played a major role.

Jobs related to exports pay on average higher wages than other jobs. Opening markets and expanding exports are therefore of great importance to our nation's prosperity and our ability to create high wage jobs. Less widely recognized is that imports, too, contribute greatly to our economic well being. Americans, as consumers, benefit from the lower prices and wider choice which imports provide; American producers similarly benefit from lower costs and wider choice for inputs, making them more competitive, which results in more jobs and higher wages; productivity is enhanced through greater competition; and for all these reasons, inflation and thus market interest rates are therefore lower.

It is interesting to compare our economic performance of the last six years with the economic performance of other industrialized nations that are less open. Study after study has shown that more open economies enjoy stronger growth, and that is certainly evident here. We have low unemployment, rising wages across the board B and we have the most open markets among the major economies. Europe and Japan are far less open than the United States, and the major economies of continental Europe have had persistent unemployment of 10 to 12 percent or greater, and Japan, now in recession for over a year, has been virtually stagnant for roughly eight years.

Moreover, trade is not a zero sum game: All nations benefit from a vibrant trading system.

Mr. Chairman, as you well know, for the last year and a half the global economy has experienced a financial crisis severely affecting countries around the world. While our economy has performed very well despite the crisis, there are certain sectors that have been substantially affected B most notably, steel, because of increased imports, and agriculture and aircraft, because of decreased world demand. The risks of that crisis continue, despite some positive developments in recent months, as do the risks to us from that crisis. To protect the economic prosperity of our country, and to restore the well being of affected sectors, we have been and continue to be enormously focused on the effort to restore stability and growth to troubled parts of the world. In this regard, we have been working bilaterally as well as with the IMF, the World Bank, the MDBs, and others to meet these important objectives.

Let me emphasize two points integrally related to all of these comments. First, trade should be not only open but fair, and this Administration is committed to fully enforcing our trade laws to deal with unlawful practices. Second, the President has worked to equip Americans with the tools they need to succeed in the global economy, with a strong emphasis on education, training, health care, and technological research and development. A strong international policy has to go hand in hand with a strong domestic policy. And we must be particularly focused on helping those who are adversely affected by the dynamic change B due principally to technology but also to trade B that so benefits the American people overall and is critical to American success in the global economy.

What we must not do is pull away from the global economy, which is so important to our economic well-being. The rest of the world look to the United States for leadership. For the United States to reduce access to our markets, even on what might appear to be a limited basis, could well be very damaging to us. It would hurt our economy directly through higher costs to consumers and producers and higher inflation and quite possibly higher interest rates; and under today's conditions there would in addition be two special risks to our economic well-being.

First, reduced access here could undermine the prospects of recovery and growth abroad in a world that is still working itself through the global crisis that began a year and a half ago, a recovery so important to our economic well being. Japan and Europe must also increase the world's access to their markets, for their sake, and for the sake of the rest of the world.

Second, and most troubling, if the United States, with its very healthy economy, is seen as moving toward restricting markets, that could well reinforce the newly vibrant voices of protectionism in many countries around the world whose economies are struggling or less vibrant then ours, and that is enormously against our economic interest.

Mr. Chairman, the U.S. economy is the strongest it has been in a generation. To sustain that strength we must continue to maintain open markets at home, and press for open markets abroad. This Committee has long been a major force in pursuing those objectives, and I and all of us in the Administration look forward to working with you to meet these great challenges, including building a consensus for trade negotiating authority that also reflects appropriate provisions with respect to labor and the environment, issues to which the WTO and the ILO have a great deal to contribute. Our success in meeting these challenges is critical to the prosperity and standard of living of our nation, as well as the global economy, for the years and decades ahead. Thank you very much.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 19:43:20.00

SUBJECT: Re: Telecom report

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

TEXT:
February 8 and 9 are both fine with me.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 12:34:32.00

SUBJECT: Putting the ERP at work for the VP

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

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

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

TEXT:
See attached message from Brad at Treasury.
Also, Tim Geithner read the final draft of the two chapters and really
liked it. We have now Treasury "clearance" on the international chapters.
Nouriel

---------------------- Forwarded by Nouriel Roubini/CEA/EOP on 01/26/99
12:31 PM ---------------------------

"SETSERB%DOM13.DOPO8" <BRAD.SETSER @ treas.sprint.com>
01/25/99 04:45:02 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP
cc:
Subject: we have come a long way ...

Date: 01/25/1999 05:20 pm (Monday)
From: Brad Setser
To: EX.MAIL("Nouriel_Roubini@cea.eop.gov")
Subject: we have come a long way ...

Caroline told our architecture working group that they should look to the
way you
treated cap. controls (i.e. outflows) in the most recent draft for
inspiration as they draft items for the v.p. at davos. She thought it was
well done!

bws

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JAN-1999 13:44:12.00

SUBJECT: SPR

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

TEXT:
This is out of date now, but it gives you some sense of the history and
the arguments.
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 01/26/99
01:43 PM ---------------------------

Jonathan Orszag
07/29/98 10:20:28 AM
Record Type: Record

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D99]MAIL48763072Q.036 to ASCII,
The following is a HEX DUMP:

DRAFT #1 July 29, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Bingaman Proposal to Purchase Oil for Strategic Petroleum Reserve

Although oil prices have risen in recent weeks, they remain near a nine-year low. These low prices are adversely affecting some independent oil producers. In response, Senator Bingaman has proposed to replenish the Strategic Petroleum Reserve (SPR) to its Gulf War level by purchasing 24 million barrels of oil at a cost of $400 million. The purpose of this memorandum is to inform your decision on whether or not to support Senator Bingaman's proposal.

Today, the Senate is addressing the Treasury-Postal Appropriations bill. Senator Faircloth has an amendment on the Exchange Stabilization Fund (ESF) that Secretary Rubin strongly opposes. They need Senator Bingaman's help in defeating this measure. However, Senator Bingaman is looking for our help on his proposal. He currently believes that we are receptive to this idea because he has not heard anything negative about it. Because he may attach his proposal to the Treasury-Postal bill today, we need to convey our views to him as soon as possible.

Our analysis of the Senator's proposal suggests that it would have an uncertain effect on oil prices in the short run and little or no effect in the long run (six months or more). Whether this proposal affects oil prices in the short run depends in large part on whether producers liquidate some of their current oil inventories -- which are relatively high -- in response to the Federal government's purchase for the SPR. If producers reduce inventories to sell to the SPR, the transaction would merely shift inventories from producers to the Federal government with little or no effect on oil prices.

If, on the other hand, oil producers do <u>not</u> draw down their existing inventories or boost their production rates, Senator Bingaman's proposal could substantially drive up the price of oil and gas. It is unlikely that the SPR would be able to make a 24 million barrel purchase all at once; Energy would spread it out over several months. Regardless, past evidence suggests that the announcement of a SPR purchase this large could bump up oil prices. We estimate that oil prices could rise by as much as 10 percent or $1.40 per barrel. This would translate into a 3.4 cent increase in gas prices for all American drivers. We would expect, though, that any such increase would dissipate over a matter of a few months.

Pros:

- If we want to replenish the SPR, now is a good time because oil prices are cheap. Indeed, it is possible that the government will profit from a purchase today (if oil prices subsequently rebound). However, past experience suggests that it is generally dangerous for the government to try to game the market.

- If the SPR purchase increases the price of oil, it would help oil producers.

- Because oil prices are expected to rise over the next several months, this proposal could help smooth oil prices in the short term. The future markets suggest that the price of oil will rise from $14.20 per barrel today to about $15.10 per barrel in three months and $15.58 per barrel in six months. However, others could argue that the fact that oil prices are expected to rise is a reason <u>not</u> to intervene.

- A SPR purchase of $400 million may result in an acquistion of <u>more than</u> 24 million barrels because the quality (and price) of the oil offered to the SPR is lower than the quality (and price) of the benchmark crude.

<u>Cons:</u>

- To the extent the proposal benefits producers at all, it comes at the expense of either America's working families or other government programs.

- OMB thinks it is unlikely that it could receive an "emergency determination" for the SPR purchase. Therefore, the $400 million cost would have to be offset by cuts in other government programs. Your Administration has reserved the emergency determination for natural disasters (e.g., floods, earthquakes, droughts, etc.) and foreign conflicts.

- If the purchase has <u>no</u> effect on oil prices, some could argue we wasted $400 million and did not help oil producers.

- If the purchase has an effect on prices, gas prices could increase by up to 3.4 cents per gallon. Thus, some may argue that this proposal is a "tax increase" on working families. And if prices increase, industries such as airlines, railroads, and utilities would complain because their input costs would rise significantly. To the extent these industries pass through the increase in energy prices to consumers, American families will have to pay more for air travel, train travel, and their utility bills. Put simply, because we are a net importer of oil, any oil price increase costs American consumers more than it benefits American producers.

- Any increase in oil prices will tend to raise inflation and/or lower economic growth in the short run. A rough estimate suggests that a 10-percent increase in oil prices could either lower economic growth by 0.X percent and raise the inflation rate (CPI-U) by 0.3 percent.

- The SPR currently exceeds the minimum amount recommended by some experts. But others recommend a higher level in the SPR to maintain some import protections.

- Some may argue that by providing insurance to this industry, we will attract additional claimants for government help whenever an industry experiences a temporary downturn.

- If energy prices rise in the next several months as expected and we make an announcement today that we are buying oil, we may get the blame for the higher oil prices.

Alternative Energy Department Proposal:

The Department of Energy recently invited oil companies to store oil in the SPR and pay for the storage space in oil. Currently, oil producers do not have excess storage space and with oil prices so low, they could benefit by building reserves now so that they can sell the oil later at higher prices. Since the SPR is currently 117 million barrels below full capacity, Energy proposes to lease 20 million barrels of space. Energy expects that the surcharge for storage would be 10 percent -- that is, if a oil producer stores 100,000 barrels, they would pay the government with 10,000 barrels. This proposal could have a similar, but much smaller, effect on the price of oil; by providing an incentive for businesses to build reserves, we would increase global demand, potentially raising the price of oil. It could also help restore up to two million barrels of our SPR.

We could potentially offer this proposal as an alternative to Senator Bingaman. Since the end result may be the same -- higher oil prices in the short run -- he may be willing to sign onto this approach. And since the Federal government would not be directly intervening in the oil market, many of the arguments against the Senator's proposal are not as relevant.

Recommendations:

The NEC, Treasury, CEA, OMB, and Energy are opposed to Senator Bingaman's proposal. There is unanimous agreement that this is a lose-lose proposal for the American people; it will either raise oil prices which would help oil producers at the expense of *all* American consumers or it will <u>not</u> raise oil prices which would mean we spent $400 million and did <u>not</u> help oil producers.

__________ Support Bingaman Proposal to Purchase Oil for Strategic Oil Reserves.

__________ Support Alternative Energy Department Proposal and Offer As Alternative To Senator Bingaman.

__________ Do <u>NOT</u> Support Either Proposal.

__________ Discuss.