

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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CREATION DATE/TIME:15-FEB-1999 06:22:35.00

SUBJECT: Documentation for 2nd meeting of OECD Round Table

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

READ:UNKNOWN

CC: Francoise.MICHELSON@oecd.org (Francoise.MICHELSON@oecd.org [UNKNOWN])

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CC: Marco.MIRA@oecd.org (Marco.MIRA@oecd.org [UNKNOWN])

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TEXT:

> Message from Thorvald Moe.

>

> Please find attached documents for the discussion at the second meeting
> of

> the OECD Round Table on Sustainable Development, planned for 28 February

> and 1 March 1999 in Washington D.C. These documents are also being sent

> to you by regular mail.

>

> The documentation includes:

>

> * Agenda

> * Issues paper on Climate Change policies

> * Issues paper on Trade and the Environment

> * Matrix of ongoing work on Sustainable Development

> * Outline of the OECD 2001 Report on Sustainable Development.

> <<Agenda2.doc>> <<Climch.doc>> <<Mea6.doc>> <<Outline.doc>>

> <<Matrix>>

> Please notice that the matrix is still incompleted as several agencies

> have not been able to provide the required information. A revised version

> will be tabled at the meeting in Washington if additional information is

> received before then.

>

> Also attached are notes on climate change and trade and the environment

> provided by UNDP.

> <<Undp.doc>>

> Practical questions can be directed to my executive assistant Marco Mira

> d'Ercole (email: marco.mira@oecd.org - tel: 33 1 45 24 8748 - fax: 33 1

> 45 24 79 31) before 24 February.

>

> I am looking forward to see you all in Washington.

>

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Best regards,

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>

>

Thorvald Moe

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>

- Agenda2.doc - Climch.doc - Mea6.doc - Outline.doc - Matrix.doc - Undp.doc=====

ATTACHMENT 1 =====

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D73]MAIL431096841.036 to ASCII,
The following is a HEX DUMP:

**SECOND MEETING OF THE OECD ROUND TABLE ON SUSTAINABLE DEVELOPMENT
IN WASHINGTON, DC**

(28 February and 1 March 1999)

DRAFT AGENDA

SUNDAY 28 FEBRUARY

Starting at 7:00 p.m.

Working dinner at The Jefferson Hotel
16th & M Streets, N.W.
Washington D.C.
(Tel. 202 347-2200)

MONDAY 1 MARCH

Starting at 9:00 a.m.

Meeting at the World Bank,
1818 H Street, N.W., Room MC13-130

1. International Co-operation on work on sustainable development
2. Work on Climate Change Policies
3. Work on Trade and the Environment
4. Next Meeting
(The third meeting is proposed to be held in Oslo on 25 and 26 August or 30 August).

13:00 a.m.

Lunch offered by Mr. Ian Johnson, Vice-President
in the World Bank's dining room.

CLIMATE CHANGE POLICIES

OECD Round Table on Sustainable Development

Washington D.C., 28 February - 1 March 1999

Issues Paper

I. Introduction

1. The OECD Secretariat has recently prepared analytical papers on climate change for some of its subsidiary bodies (Working Party I of the Economic Policy Committee, and the Environmental Policy Committee). This Issues Paper draws on these papers to highlight some issues for informal discussion on a personal basis. With the Kyoto Protocol leaving many questions open, OECD work has aimed to: *i*) quantify the effects of different implementation strategies, drawing on results from a range of models (including the OECD's world General Equilibrium Model, GREEN); and *ii*) assess progress by countries in implementing mitigation strategies under the Convention. Members of the Round Table are invited to provide guidance on further OECD work, notably for COP5; and to highlight other relevant work on climate change policies.

II. Moving ahead with the design of the mechanisms of the Protocol

2. While the Kyoto Protocol represents an historic step in countries' efforts to limit climate change, many of its provisions need further interpretation before they can be implemented. A timetable for reaching agreement on these elements, agreed at the Fourth Meeting of the Conference of the Parties in Buenos Aires, foresees that remaining issues will be completed by late 2000 (COP6). The nature of the solution to these issues will determine how the Protocol will be implemented.

3. Among the issues on which solutions have not yet been reached are the following:

- *Monitoring and verification.* Emissions are measured with uncertainty, with the range of uncertainty varying by country, by gas and by source. It is low for CO₂ from fossil fuel combustion, and high for CO₂ from other sources (including sinks) and for non-CO₂ gases.
- *Mechanisms for ensuring compliance.* While national laws provide an array of enforcement options, international mechanisms to ensure compliance are narrower in scope. Yet, credible sanctions may be required to ensure compliance. The best approach to compliance raises a number of difficult issues for negotiators, including the type of liability regime.
- *Buyer or issuer liability.* The economic efficiency of trading and the size of the trading market will depend *inter alia* on whether the liability for non-compliance with national

targets lies with the issuer or the buyer of permits. While issuer liability may raise the efficiency of trading, it may require sanctions to penalise non-compliance.

- *Entity trading.* While not explicitly foreseen by the Protocol, countries may develop domestic trading by allocating quota permits to domestic entities. Given the link between prices on international and domestic markets, this could increase the efficiency of trading (by raising the number of participants, and decentralising decisions), but raises several implementation issues.

4. Members of the Round table may address some of the following questions:

- Which of these elements are likely to prove most important in shaping the success of the agreement? Which issues are likely to prove more divisive among Parties to the Protocol?
- How can OECD research and analysis best assist countries in making progress in achieving costs-effective solutions to these issues?

III. Economic implications of the Kyoto Agreement

5. One important objective of OECD work has been to compare the economic costs of the Protocol when countries implement their emission targets through domestic action (with a uniform tax) -- referred to as the “no-flexibility” case -- relative to when they make use of the various “flexibility mechanisms”.

6. Costs of reducing CO₂ emissions may be expressed in terms of the price (marginal costs) of carbon required to meet targets. An OECD review from a range of models shows that these marginal costs are likely to be rather high if countries have to meet their target individually, possibly ranging between \$150 to \$300 per ton of carbon¹, with higher abatement costs in the European Union, Japan and the rest of the OECD region than in the United States (see Annex Table). Carbon taxes of this magnitude may generate substantial increases in energy prices²; falls in energy production and in competitiveness for energy-intensive industries in OECD countries; and large real income falls among oil-exporting countries. Estimates of the impacts on GDP and real incomes in OECD countries mostly fall in the ½ - 1 per cent range, without taking into account any transition costs and assuming that policy adjustment will be gradual and started soon.

7. Relative to these estimates, savings -- in the form of lower costs of implementation -- allowed by the use of “flexibility mechanisms” are typically large. Estimates of the economic effects of so-called “where” flexibility among Annex I countries -- emission trading (ET) and joint implementation (JI) -- suggest a reduction of marginal costs to OECD countries by around one half, with most of this gain reflecting a concentration of abatement efforts in countries where these are less costly. Part of the savings allowed by “where” flexibility would reflect trading in so-called ‘hot air’, e.g. the possibility that some Annex I countries (notably Russia and Ukraine) might meet the Kyoto targets without any action and sell their surplus emission allowance to other countries. While predictions on the size of ‘hot air’ are uncertain, the present economic outlook for countries in the former Soviet Union suggests that this may be

1. As compared to an international oil price -- in terms of carbon equivalent -- of \$150 per ton in 1995.

2. An increase of the average price consumers pay for energy services and transport of around 50 per cent.

substantial³. With reference to other forms of flexibility (“what” and “when”), while it is more difficult to quantify their effects, the potential for savings are also significant.

8. While the unlimited use of these “flexibility” mechanisms would significantly lower the costs of abatement efforts, it also raises concerns which have encouraged some countries to favour limits to trade. In addition to the “political” concern of eliciting more countries to participate to global abatement efforts, other concerns include measurement issues (while not specific to trading, measurement errors in one countries would affect abatement efforts in others); implementation issues; and problems associated to the possibility of monopolistic behaviour on the trading market⁴. Various departures from full “where” flexibility would in general result in divergence between marginal abatement costs among countries, reducing the global benefits accruing from trade. Also, the adoption of unilateral restrictions on the purchase of emission permits by some countries would increase their costs for meeting obligations, to the advantage of other countries who opt for unlimited trading. On the other hand, imposing limits to the trading of “hot air” would be ineffective as the Protocol allows countries to carry over unused permits to future commitment periods.

9. Discussion may address some of the following questions:

- Are there any economic reasons for limiting the extent of trading among Parties to the Protocol?
- Which type of limitation -- if any -- may allow to reconcile the efficiency-benefits of trading with arguments that all countries take some actions at home?
- How can OECD work on these issues be most useful as background for negotiators?

IV. Moving Beyond Kyoto

10. Achieving the Kyoto targets is a first step towards the long-term goals of stabilising GHG concentrations. OECD model simulations extending Kyoto commitments to 2050 suggest that aggregate costs of these commitments would be considerably higher than in the first commitment period⁵; also, that trading among Annex I countries becomes less important in reducing these costs, as the emergence of alternative energy sources (“backstop technologies”) in Annex I countries may narrow the range of abatement costs and the scope for efficiency gains.

11. This extension of the Kyoto targets, moreover, would not be sufficient to achieve the long-term objective of stabilising concentrations of GHG gases over the coming centuries. To stabilise concentration, significant participation by major emitters from the non-Annex I group is necessary. This raises questions on the requirements needed to obtain global participation, and on the effects of different rules for allocating emission allowances on the incentives to participate.

3. OECD preliminary scenarios imply an estimate of the phenomenon of ‘hot air’ of over 130 million tonnes of carbon per year (some 14 per cent of the combined Russia and Ukraine annual target for the 2008-12 period).
4. This is associated to the likelihood that Russia and Ukraine emerge as the dominant suppliers in the market for emission permits, also reflecting ‘hot air’. In this situation, suppliers would have incentives to sell fewer permits at a higher price than under perfect competition.
5. From around 0.5 per cent of annual GDP to around 1 per cent in the case of no emission trading.

12. Incentives for non-Annex 1 countries to participate in future agreements may be created by a gradual move towards an egalitarian allocation of emission allowances, based e.g. on equal per capita emissions. Emission trading is crucial for keeping costs down under such an allocation scheme, given the large expected differences in abatement costs across countries. But even under full trading, global costs could be substantial if emissions are to be brought down to levels consistent with stabilisation of atmospheric GHG concentrations. Moreover, an egalitarian allocation of allowances may not be sufficient to induce participation by all non-Annex 1 countries, implying that direct transfers may be required to compensate some countries to participate in abatement. However, the incentives required for non-Annex 1 countries to participate in a global agreement also depend on the benefits they expect to reap both from lower GHG concentrations and from local, ancillary benefits of abatement efforts.

13. Discussion may address some of the following questions:

- Which type of burden sharing may offer the best opportunities for eliciting non-Annex 1 countries to take up commitment in terms of emissions reductions?
- How should OECD and its affiliates, in co-operation with other institutions, pursue work and enhance the dialogue with non Annex 1 countries on these issues?

V. Assisting OECD countries in establishing domestic frameworks conducive to cost-effective mitigation?

14. A review of countries experiences in domestic mitigation policies highlights a variety of approaches being pursued, but also some common features. Measures have generally aimed at multiple objectives, rather than climate change alone, and mainly targeted CO₂ emissions from energy⁶. Due to their fragmented nature, these measures have had only limited influence on emission trends; at the same time, the deregulation of energy markets, by lowering energy prices, may have raised energy consumption and CO₂ emissions. In some countries, carbon and energy taxes have delivered promising results despite pervasive exemptions and low tax rates⁷. While environmental taxes share a number of desirable features (easy administration, certainty of the tax base, efficient taxes with the possibility to offset distortive taxes elsewhere), they also raise issues (trade implications, distributive impacts, uncertainty of its environmental outcomes) that in practice have limited their use.

15. While there is no single formula, a cost-effective domestic mitigation strategy across sectors may include a number of features. First, global reforms aimed at phasing out harmful subsidies and other measures leading to higher emissions of greenhouse gases (“foundation policies”). Second, coherent sectoral strategies (for example, policies to curb emissions from transport through changes in behaviour and technology). Third, the use of policy instruments to take into account the externalities of greenhouse gases (“full cost pricing”). While calling for greater use of economic instruments, this will need to be complemented by integrated packages of interventions to overcome market imperfections (e.g. information barriers, access to capital) and to increase research and institutional capacity. Finally, the assessment of the costs of domestic interventions should consider all ancillary benefits from reducing GHG emissions (such as improving human health, protecting natural resources, raising energy and environmental security).

6. Domestic measures have included subsidy reforms in agriculture and energy, voluntary agreements in transport and industry, improvements in vehicle efficiency, fiscal incentives and CO₂ taxes.

7. Five OECD countries have carbon and or energy taxes to deal with climate change. According to some national studies, these may have reduced CO₂ emissions by 9 per cent in Sweden; and by 3 to 4 per cent for households in Norway.

16. Members of the Round Table may address some of the following questions:

- What role might green taxes play in domestic mitigation strategies?
- How can OECD countries co-operate in advancing domestic strategies and demonstrate leadership? Is slow progress on the domestic front hampering the extension of participation to a larger number of countries?
- Are OECD governments considering the wide range of ancillary benefits in the design of their domestic strategies?
- Can “best practices” for domestic mitigation in OECD countries be established? In which other areas, can international co-operation enhance the scope and pace of domestic action?

VI. *Adapting to Climate Change*

17. Stabilising concentrations of greenhouse gases will call for a major effort from the international community. Further, most projections imply that even if concentration levels stabilise relatively early, climate change will continue for some time. This raises questions as to the likely nature of the impact of climate change in the various parts of the world, and of the strategy for adapting to these changes. Answers to these questions are essential if estimates of the economic costs of abatement efforts are to be compared to the benefits accruing from avoiding (or minimising) climate change.

18. Consensus views on the regional impacts of these changes, based on assumptions of a doubling of CO₂ concentrations by the second half of next century (with projected increases in a range of 1.5 to 4°C in temperature, and in 0.2 to 1 meter in sea-level) point to a variety of effects, and different risks for the various regions and sectors in terms of seasonal temperature changes, precipitation patterns, agricultural productivity, change in land patterns, vulnerability to coastal flooding, soil erosion, population movements and human health.

19. Experience in some OECD countries in adapting to sea-level rise point to a variety of strategies being pursued, ranging from full protection of existing activities, followed by abrupt adaptation at a later stage; a planned retreat of existing activity; and one where abandonment and modifications are planned in advance. Choices among these alternative strategies are a function, *inter alia*, of sector- and area-specific characteristics, asset lives, and information of the meteorological effects of climate change. The challenge of adapting to climate change is likely to be especially pressing for non-OECD countries.

20. Discussion may address some of the following questions:

- What is the balance between policy-interventions and market forces in handling adaptation strategies? In which areas, are changes in policy settings and instruments most needed?
- Should countries develop models with a higher degree of geographical resolutions to derive more detailed impact assessments? .

Annex Table. Marginal abatement costs, without and with emission trading, according to different models

	without trade	with trade
<u>United States</u>		
WorldScan ⁽¹⁾	41	18
GREEN	231	90
G-Cubed ⁽²⁾	63	37
EMF16 ⁽³⁾	140 - 340	21-160
Merge ⁽⁴⁾	274	113
AIM ⁽⁷⁾	166	67
GTEM ⁽¹⁰⁾	369	122
<u>Western Europe</u>		
WorldScan ⁽¹⁾	83	18
GREEN	189	90
G-Cubed ⁽²⁾	167	37
AIM ⁽⁷⁾	252	67
GTEM ⁽¹⁰⁾	762	122
<u>Japan</u>		
WorldScan ⁽¹⁾	93	18
GREEN	182	90
G-Cubed ⁽²⁾	252	37
AIM ⁽⁷⁾	253	67
GTEM ⁽¹⁰⁾	739	122

(1) Bollen, Gielen and Timmer in OECD (1998)

(2) McKibbin, Shackleton and Wilcoxon, in OECD (1998), p.71.

(3) Figures quoted by J. Edmonds reporting on the results of the EMF16.

(4) Manne and Richels, in OECD (1998), p.19.

(7) Kainuma, Matsuoka and Morita in OECD (1998), p.167

(10) Tulpulé et al., in OECD (1998).

Source: OECD (1998), Economic Modelling of Climate Change, Workshop Report, 17-18 September 1998. This report was also presented at COP4.

**TRADE AND ENVIRONMENT -
TRADE AND MULTILATERAL ENVIRONMENTAL AGREEMENTS (MEAs)**

OECD Round Table on Sustainable Development

Washington D.C., 28 February - 1 March 1999

Issues Paper

I. Introduction

1. Efforts to better integrate trade and environment have been on the political agenda since the early nineties. Since 1991, OECD has undertaken analysis on a wide range of issues at the frontier of trade and environment, including the environmental effects of trade liberalisation; the trade effects of product policies developed to promote sustainable consumption; the relationship between trade and Multilateral Environmental Agreements (MEAs); the development of guidelines for integrating trade and environment policies and a practical methodology for undertaking that task. Most recently, the OECD has carried out work in relation to three prominent MEAs which utilise trade measures: CITES (*Convention on International Trade in Endangered Species of Wild Flora and Fauna*) the Montreal Protocol (which aims to arrest the depletion of the ozone layer) and the Basel Convention (on transboundary movements of hazardous waste).

2. OECD's work has contributed to the global discussion on environment and trade, in particular in the WTO, where, as commonly agreed, progress is slow. The forthcoming High Level Symposium on Trade and Environment in March and the Millennium Round of trade negotiations may provide new impetus to the discussion. Among the issues that need further consideration are the impact of trade agreements on the environment and the relationship between MEAs and trade. This note will focus on the latter, and will also raise issues for discussion regarding the possible trade effects and trade rule compatibility issues, arising from the implementation of the Kyoto Protocol.

II. Why use trade measures in MEAs?

3. To date, over 185 MEAs have been negotiated and signed by the world community. Of those, approximately 10 percent contain various types of trade measures as one part of a package of instruments intended to address transboundary and global environmental problems. An important question in the trade-environment debate has been the purpose and effectiveness of different trade measures in MEAs, as well as clarification of the relationship between trade measures and the rules of the multilateral trading system. In a recently concluded MEA, (the Convention on Prior Informed Consent) and in instruments currently under negotiation, (the Convention on Persistent Organic Pollutants, and the Biosafety Protocol), trade measures play an important role.

4. There are a range of objectives of trade measures in MEAs, reflecting the objectives and operational priorities of different MEAs. These objectives focus on (i) reducing the transboundary movement of products in which trade is considered to be environmentally harmful, (hazardous waste or endangered species) and (ii) promoting wider participation in, and therefore stronger support for, the objectives of the MEA.

5. MEAs reduce transboundary movements of controlled substances by prohibiting trade with non-Parties in most circumstances. MEAs such as the Basel Convention disallow trade, even between Parties, if a Party is not in compliance with the MEA. MEAs also contain procedural requirements which generate information about the volume of trade - by requiring import or export licences or permits, and/or the prior informed consent of the importer, which create opportunities for import or export authorities to prevent the trade.

6. MEAs also promote participation and discourage free-riders (those who remain outside of an MEA regime), by disallowing trade with non-Parties. The exchange of information among Parties through the procedural requirements outlined above, assists the enforcement of domestic controls, and contributes to co-ordinated environmental management among countries. These information exchanges also help increase transparency and mutual confidence among Parties to MEAs, in the same way as notification systems in the WTO and regional trading agreements contribute to transparency and confidence among trading partners.

7. However, there are arguments by some, that trade measures in MEAs can have *negative* environmental effects. For example, considerable attention has been focused on the potentially perverse economic and environmental effects of the export ban under the Basel Convention. It has been contended that this inhibits the countries with whom trade has been banned, from recovering raw materials from the waste; and increases disposal and use of new materials. There are also arguments that bans on trade in endangered species reduce the incentive to protect the species, as well as intensifying the threat to species by increasing their black market value.

8. A related concern is the persistence and growth in illegal trade in the substances controlled under the Montreal Protocol, CITES and the Basel Convention. While implementation and enforcement efforts are being strengthened through the provision of financial and technical assistance and capacity-building, problems do exist, and illegal trade is among the largest. In mid-1998, the G7 Ministers' Summit identified illegal trade connected with the environment to a criminal area of growing concern. For example late last year, the Solicitor General of Canada released a study showing that the value of illegal trade in hazardous waste, endangered species and ozone-depleting substances ranked second to the international drug trade.

9. Notwithstanding the contentions about potential problems with the inclusion of trade measures in MEAs and the difficulties of enforcement which have been noted, OECD studies on the use of trade measures in MEAs have concluded that they can be an effective part of a strategy for achieving the environmental objectives of MEAs.

10. Discussion could commence with:

- How can the efficacy of trade measures used by MEAs to achieve environmental objectives, benefit from the experience of the trade community?
- What types of strategies are needed to address illegal trade in products regulated by MEAs?

III. Relationship between MEAs and the multilateral trading system

11. In the past few years discussions have focused on hypothetical problems involving the compatibility of MEAs with WTO trade rules. Many of these discussions have examined the question: What would happen if a WTO member that was not a party to an MEA, brought to the WTO a formal dispute regarding discriminatory trade measures between Parties and non-Parties?

12. The following points can be noted. First, there has never been a formal dispute, or even informal discussion towards a dispute, between an MEA and the WTO. This, of course, does not mean that none will arise in the future. Second, membership in high profile MEAs is often larger than in the WTO. However, amendments to MEAs generate potential issues about universal coverage, if fewer countries sign up to these amendments than the original Convention, as is the case with the amendments to the Montreal Protocol.

13. It is sometimes suggested that trade measures can be taken for protectionist purposes, under the cover of an environmental objective. Among the recommendations arising from OECD work is that multilateral consensus on the environmental problem concerned and a strong scientific basis for policy action, should be preconditions for trade measures to be included in an MEA. The existence of these preconditions should lessen the likelihood that measures are taken on a false pretext. As noted above, several WTO dispute panels have also underlined the importance of adopting multilateral approaches to shared, global environmental problems. Finally, recent WTO jurisprudence may infer a presumed compatibility between the GATT and MEAs. The recent shrimp/turtle decision reiterated the strong preference of the trade community for multilateral approaches, rather than unilateral trade sanctions, to resolve environmental issues.

14. There have been a number of proposals regarding potential amendments to GATT Article XX¹ to accommodate MEAs as a general exception. But there may be other options as well. Suggestions have been made for a kind of co-operative arrangement between the WTO and individual MEAs. In a recent study, UNEP has also suggested that the WTO should engage in a formal agreement with MEAs, as a means to ensure better policy co-ordination, as it did with the World Bank and the IMF. Indeed, the record clearly shows that the WTO is willing to enter into informal working relationships with a broad range of trade and non-trade organisations and international accords, including UNCTAD, the International Standards Organisation and the International Maritime Organisation.

15. Along the same lines, the WTO Director-General and the UNEP Executive Director have both acknowledged the need for a framework to work out the institutional "architecture" between MEAs and the WTO. This idea seems to be gaining momentum in Geneva, particularly against the back-drop of the forthcoming High-Level Symposium on Trade and Environment, and may signal that new approaches to MEA-trade rule issues need to be explored.

I. Article XX contains a list of general exceptions to the other provisions of the GATT. Currently, to demonstrate that an environmental measure does not conflict with the GATT, the measure must comply with the opening words of the exception (be not "a means of arbitrary or unjustifiable discrimination" and not "a disguised restriction on international trade"), and fall within one of the exceptions in Article XX, the most appropriate of which are that the measure is:

“(b) necessary to protect human, animal or plant life or health;”

“(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;”

16. Members of the Round Table may wish to consider:

- How can the Parties, Convention Secretariats and other international organisations further contribute to promoting compatibility between the WTO and MEAs?
- What aspects of the relationship between MEAs and the multilateral trading system are in need of further analysis, which could be investigated by OECD?

IV. Trade Issues arising from MEAs: illustrated by the Kyoto Protocol

17. As well as the effects which arise *from the use of trade measures* in MEAs, there is another trade aspect to MEAs - the trade effects that arise *from the MEA itself*. To illustrate, consider the relationship between the three “flexibility mechanisms” introduced by the Kyoto Protocol on climate change -- Joint Implementation, the Clean Development Mechanism, and international greenhouse gas emissions trading - and the multilateral trading system. This section will highlight some of these possible trade effects, as well as potential issues of compatibility with WTO rules.

18. Although the Kyoto Protocol does not contain provisions for the use of trade measures as such, implementation of its provisions could have profound economic and trade effects. Many key economic sectors -- including energy, transport, agriculture and tourism--will be affected. New markets may emerge, for example, for international emissions trading.

19. Questions include, whether the implementation of the Kyoto Protocol accelerate the adoption, at the domestic level, of energy efficiency and other possible climate-related standards? And will these standards be verified through the expanded use of labelling and certification schemes?

20. Some countries are also concerned that implementation of the Protocol could affect the international competitiveness of their energy-intensive activities. For example, green taxes, and the way in which countries allocate emission quotas internally to domestic firms, could affect their relative competitiveness, if this allocation is done in different ways in different countries. As alluded to in the Issues Paper on Climate Change Policies, OECD is currently examining the competitiveness implications of various tradable permit arrangements for emissions trading.

21. In addition to economic and trade implications arising from these measures, WTO rule compatibility issues need to be anticipated as the Kyoto mechanisms near implementation. Potential questions include the extent to which emissions which are traded might be treated as a “commodity”, and therefore fall under WTO rules, for example, on non-discrimination. Transfers under the Joint Implementation and/or Clean Development Mechanisms might also be subject to WTO disciplines if such transfers involve “services” being provided to host countries. And how will the WTO “like product” rules deal with climate-related policies that differentiate between energy-related activities based on production standards, for example, greenhouse gases produced during production?

22. Clearly there may be trade effects associated with the Kyoto Protocol, as well as the potential for incompatibility with multilateral trading system rules, which need to be addressed at an early stage, to ensure that carbon-reduction policies work in close co-operation with multilateral trade obligations.

23. Discussion could commence with:

- What are likely to be the most important effects of measures taken pursuant to the Kyoto Protocol in relation to international trade policy, competitiveness of particular sectors, or other economic issues?
- To what extent might the Kyoto Protocol raise trade-rule compatibility issues, and is it timely to identify such issues before the flexibility mechanisms of the Kyoto Protocol mechanisms actually begin operation?

Annex

List of recent OECD reports on trade and environment

Environmental effects of trade liberalisation

Environmental Goods and Services

- Future liberalisation of trade in environmental goods and services: ensuring environmental protection as well as economic benefits (*)
- Assessing barriers to trade in services: environmental services

Energy

- Environmental effects of liberalising trade in fossil fuels (phases 1-2)

Transport

- Freight and the Environment: Effects of Trade liberalisation and Transport Sector Reforms (*)
- Liberalisation in the transportation sector in North America (*)
- Liberalisation and structural reform in the freight sector in Europe (*)
- The Environmental Effects of Freight (*)

Integrating trade and environment issues

Implementation of the Procedural Guidelines on Trade and Environment

- Questionnaire on implementation of the 1993 procedural guidelines on trade and environment (*)
- Replies to the questionnaire on implementation of the 1993 OECD procedural guidelines on trade and environment (*)

Trade measures in Multilateral Environmental Agreements

- Experience with the use of Trade Measures in the Convention on International Trade in Endangered Species (CITES) (*)
- Experience with the use of Trade Measures in the Montreal Protocol on Substances that Deplete the Ozone Layer (*)
- Trade Measures in the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes (*)
- Trade measures in Multilateral Environmental Agreements: Synthesis Report of three case studies

Sustainable product policies and trade

- *Process and Production methods (PPM)*: Conceptual framework and considerations on use of PPM-based trade measures (*)
- *Eco-labelling*: Actual effects of selected programmes (*)
- *Green procurement*: Trade issues in the greening of public purchasing
- *Extended producer responsibility (EPR)*: Guidance manual (chapter 2) for governments
Extended producer responsibility and trade: an overview of the linkages

(*) Available on the OECD Trade or Environment Directorate web sites: http://www.oecd.org/ech/index_2.htm and <http://www.oecd.org/env/lists4.htm#ECO>

THE OECD REPORT TO MINISTERS ON SUSTAINABLE DEVELOPMENT IN 2001. A PRELIMINARY OUTLINE

- I. The three year horizontal project should lead to three types of documents:
 - a **Policy Report** to Ministers, to be prepared by an *ad-hoc* drafting team beginning its work in the second half of 2000 (maximum length of 50 pages). It will draw, in a flexible way, on other documents (see below). This is the key document for the Ministerial;
 - an **Analytical Report** to Ministers, with inputs prepared by directorates (maximum length 300 pages). All elements of this analytical report should be available at least in advance draft form by end-2000. A preliminary Table of Contents of this Analytical Report is given below;
 - a series of self-contained **Background Reports**. As an example: a Report on Climate Change Policies is planned for release at COP5. Other background Reports could be prepared as documentation for conferences and proceedings. Other examples: the December 1999 Conference in Rome on Indicators, and the June 1999 Ministerial Meeting of Committee on Science and Technology Policy could lead to publications on, respectively, Measurement and Technology and Sustainable Development.

A tentative outline of the Analytical Report

A. Policy Framework for Sustainable Development

1. Key Dimensions of Sustainable Development
2. Measurement (Indicators)
3. Institutions and Decision Making
4. Getting Prices Right
5. Technology and Sustainable Development
6. An Overview of Policies to Enhance Sustainable Development in Member Countries

B. The Sustainable Management of Natural Resources

7. Natural Resources

C. Addressing Climate Change

8. Climate Change Policies

D. Sectoral Policies

9. Energy
10. Transport
11. Agriculture

E. Globalisation and Sustainable Development

12. Trade, Investment and Sustainable Development
13. Strategies for Enhancing Sustainable Development in Developing and non-member countries

OVERVIEW OF ONGOING WORK ON SUSTAINABLE DEVELOPMENT

AGENCY: OECD

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Policies to internalise external costs and benefits ("getting prices right")	Data and methodologies for the appraisal of external effects Peer review of national policies for selected Member countries Role of taxation in achieving environmental objectives Subsidy reform	2000
Climate Change	Issues of clarification and implementation of Kyoto Protocol and Convention International issues and strategies Domestic strategies and policies Effects of achieving Kyoto targets Moving beyond Kyoto	2000
Sustainable Development of Natural Resources	Sustainable management of farmland and terrestrial ecosystem Sustainable management of fisheries and marine ecosystem Sustainable management of forests and terrestrial ecosystem Sustainable management of water and inland water ecosystem Sustainable management of fossil energy sources Sustainable development of uranium resources	2000
Technology and Sustainable Development	Role of technology in improving resource productivity and eco-efficiency Key technologies for achieving sustainable development Approaches to designing environmental policies to stimulate innovation in industry Approaches to designing technology policies to contribute to sustainable development goals Means for increasing public acceptance of, and demand, for clean technologies Diffusing technologies for sustainable development in developing countries	2000

[Automated Records Management System Hex-Dump Conversion]

AGENCY: OECD (continued)

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Indicators of Sustainable Development	Framework for Sustainable Development indicators Summary indicators of Sustainable Development (genuine savings, green GDP) Indicators of accumulation and depletion of different types of capital (man-made, natural resources, environmental, human capital) Sets of integrated indicators for different sectors of the economy Sets of integrated indicators for sub-national units and area typologies	2000
Engaging non-member countries in efforts towards Sustainable Development	Efforts underway in non-member countries to formulate and implement National Strategies for Sustainable Development Assisting non-member countries fulfil their obligations under the different Global Environmental Conventions Fostering cleaner production in developing countries Assisting non-member countries to establish framework conditions conducive to Sustainable Development Monitoring development progress through a working set of core indicators	2000

AGENCY: UNCTAD

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Policies to internalise external costs and benefits ("getting prices right")		2000
Climate Change	- Role of taxation in achieving environmental objectives - Subsidy reform	2000
Sustainable Development of Natural Resources	- Issues of clarification and implementation of Kyoto Protocol and Convention - International issues and strategies (related to emissions trading and CDM)	2000
Technology and Sustainable Development	- Sustainable management of mineral resources - Sustainable management of biodiversity resources (BIOTRADE) - Sustainable management of forestry resources	2000
Environmental Accounting	- Diffusing technologies for sustainable development in developing countries - Waste management (Basel Convention)	2000
Indicators of Sustainable Development	Issues related to environmental accounting by businesses	2000
Engaging developing countries in efforts towards Sustainable Development	Sets of integrated indicators for different sectors of the economy	2000
Trade and environment	- Assisting developing countries to establish framework conditions conducive to Sustainable Development "Win-win" strategies - Environmental management standards and international trade - Transborder environmental management - Trade impacts of environmental policies and agreements - Effects of the use of trade measures and positive measures in multilateral environmental agreements (MEAs) on the achievement of environmental objectives and on trade and competitiveness	2000

[Automated Records Management System Hex-Dump Conversion]

AGENCY: WORLD WIDE FUND FOR NATURE

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Conservation of Biodiversity	- Field application of sustainable management in forest, freshwater, and marine ecosystems (hundreds of field projects) - Integration of conservation and development - projects with local communities and authorities (tens of field projects) - Developing sustainable livelihoods, including sustainable income sources for local communities (a few projects) - Identification of root causes of and sustainable solutions to ecological degradation in the Global 200 Ecoregions (tens of projects)	On-going " " "
Institutional Frameworks to Achieve Conservation	- Development and application of certification systems in forestry, fisheries and tourism - 'TRAFFIC' programme to monitor trade in endangered species - Access and benefit sharing of genetic resources	2003 On-going "
Reduction of Environmental Impact	- Mechanisms to reduce CO2 emissions - Reduction of environmentally damaging subsidies - Mechanisms to increase the sustainability of trade, aid and investment - Impacts of structural adjustment on national economies and the natural environment - Sustainable management methods for forests and fisheries	2001 On-going " " "
Increased Sustainability at National Level	- People and Conservation - capacity building, environmental education, defence of indigenous people's rights - Macroeconomics for Sustainable Development	On-going "
Indicators	- Development of indicators of biodiversity loss - Support to greening of national accounts	2000 On-going

[Automated Records Management System Hex-Dump Conversion]

AGENCY: WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

RESEARCH AREA		MAIN ISSUES ADDRESSED	TIME FRAME
Understanding Sustainable Development (SD)		Scenario Work for industry sectors, geographical areas, building on the WBCSD Global Scenarios • Energy • Energy Policy • Biotechnology • Us (together with the PCSD)	1999 1999 1999 1999
		Connect the Global Scenarios to subject areas that need to be addressed in each scenario	1999
<u>JAZZ</u>			
Sustainability through the Market		• Sustainable consumption • Innovation • Rights, roles, responsibilities • Dialogues in developing countries to get their perspective into our work	2000
Making Markets work		What does it take to make markets work in a way that promotes SD? Internalizing of environmental costs, in cooperation with IISD, Canada	2000
Innovation and Technology (I&T)		• Understanding the role of I&T in achieving SD • Promoting the role of I&T and educating stakeholders	2001
Trade and Environment		• Bring business input into the WTO • Educate business in developing countries and help bring their views into WTO	continuous
<u>GEOPOLITY</u>			
Climate and Energy		• Design of the Kyoto mechanisms, especially emissions trading in a broad sense • Credits for early action • Principles for measuring and reporting GHG emissions	2001 (COP-6)
Corporate Social Responsibility		• Define borderlines between different stakeholders (government, business, civil society) • Raise awareness within business • Dialogues in developing countries • Tools and guidelines on measuring and reporting	2000
<u>FROG</u>			
Eco-Efficiency		• Resource efficiency	2000
Water		• "Partnerships in Practice", case studies on public/private partnerships • Water pricing, workshop in Buenos Aires	2000
Sustainable Forest Industry		• State of the World Forest Industry Report • Stakeholder dialogues	1999

AGENCY: WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (cont.)

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
<u>CAPACITY BUILDING</u>		
Learning by Sharing	A cross cutting program to facilitate member experience sharing on how to implement SD in companies, both on the strategic level and in operations	2000
Education and Training	Build on the Sustainable Business Challenge for graduate students and create a WBCSD Virtual University on SD in partnership with amongst others Cambridge University	2000
Global Outreach	• Continue to develop our network of national BCSDs in developing countries and countries in transition • Local dialogues for capacity building and input into the WBCSD policy work	continuous

AGENCY: WORLD RESOURCES INSTITUTE

Research by Theme	Objectives	Ongoing Projects	Time Frame
Biological Resources	Develop scenarios and vision statements for sustainable biological resources management Reform agricultural forestry, and fishery practices to become biodiversity friendly Promote economic tools and institutional mechanisms to ensure vital ecosystem services Develop policies and institutional mechanisms to protect coastal ecosystems	Forest Frontiers Initiative Millennium Assessment of the State of the World's Ecosystems Linkages in the Landscape Agrobiodiversity and sustainable agriculture Southeast Asia Marine and Coral Reef Protection	1998 - 2000
Climate Protection	Accelerate developing countries' effectiveness in reducing the energy and carbon intensity of their development paths Accelerate the private sector's acceptance of climate as a real, management problem; promote private sector providing the solutions Contribute to the creation of innovative and effective treaty flexibility mechanisms, particularly emissions trading and the Clean Development Mechanism Develop and promote climate policies that will increase chances that ecosystems and the people they support can survive climate change.	Safe Climate Sound Business China Climate Leadership Energy Restructuring Megacities: Air pollution and Climate Change Developing Country Baselines	1998 - 2000

[Automated Records Management System Hex-Dump Conversion]

AGENCY: WORLD RESOURCES INSTITUTE(cont.)

Research by Theme	Objectives	Ongoing Projects	Time Frame
Development Paths	Promote environmental adjustment Innovate environmental governance mechanisms Pilot sustainable sector models Link ecological health to human welfare Engage international policy fora to ensure representation of environmental values and developing country perspectives.	Policy Research Capacity Initiative International Financial Flows and the Environment Resources Policy Support Initiative Outsourcing Environmental Accountability Environmental Governance in Central America Place-Based Forest Management Project	1998 - 2000
Sustainable Enterprise	To help industry leaders to formulate managerial and market approaches to sustainable development To build demand for products and services that respect nature To validate human and social investment as a business proposition To contribute to the formation of public policy that will shift industry to more sustainable forms of production and consumption To develop and validate the empirical basis for sustainable enterprise	BELL/LA-BELL SPLASH New Ventures Sustainable Forest Enterprise	1998 - 2000

[Automated Records Management System Hex-Dump Conversion]

Climate Change Policies

Sustainable Development and Climate Change

The climate change issue became an integral part of UNDP's concern for two fundamental reasons: first, developing countries will be hit hardest by climate change through modified weather patterns, rising sea levels and changes in food production. Second, measures promoting sound development happen to have beneficial impacts on local, regional and global environmental problems, including on climate change.

Developing countries did little to contribute to the present build-up of greenhouse gases, nor have they enjoyed the benefits of the economic growth, which accompanied it. For these reasons, the world richest countries have acknowledged their principal responsibility for reducing greenhouse gases with the entry into force of the Climate Change Convention and the agreement on the Kyoto Protocol. However, developing countries are becoming a growing source of emissions, although they remain at low levels on a per capita basis.

Development Needs More Energy Services : Little can be done to address problems related to poverty, such as education, health care, and sanitation without offering more energy services. Millions of people, mostly women, still spend hours a day carrying fuel wood. More than 1.5 billion people are without electricity and two billion people still use wood and animal dung for cooking and heating. The need to provide improved access to energy services, combined with the need to confront the associated environmental limitations, is therefore the current challenge. As developing countries pursue socio-economic development, greenhouse gas emissions are projected to grow substantially, primarily due to energy use for industry, transport, commercial and residential uses, and as a result of land use change. Hence, development and climate change mitigation needs must be reconciled.

Reconciling development and climate change mitigation: 80 per cent of greenhouse gases emissions come from the energy sector. Conventional approaches to energy must therefore address the whole set of greenhouse gases related issues. In addition, new technologies and renewable resources open many avenues for development without relying on greenhouse gas-emitting fuels.

Sound energy policies can help not only to increase the quality of energy services for the poor, for example through existing cost-effective efficient lighting, water-pumping technologies, and the modern use of biomass, but also to deal with the root causes of poverty by creating new employment opportunities. In fact, decentralised energy demand and supply technologies, which include photovoltaic power, small-scale hydropower, biomass energy, and wind power, can efficiently provide the power to drive development in remote rural areas where it is not economically practical to extend the power grid. Efficient biomass fuelled cooking stoves reduce the amount of fuelwood to be collected and efficient water pumps can save the considerable effort needed to carry water.

Finally, deforestation often jeopardises sustainable development and can lead to increased levels of poverty and the marginalization of rural populations in developing countries. Deforestation in itself, is also a large source of carbon emissions.

Therefore, a suitable approach to sustainable development and climate change builds upon the following observations:

- Energy and land use strategies should be integrated with other crucial aspects of development, including poverty alleviation, sustainable economic growth, improving the situation of women, indoor and urban pollution, and land degradation.
- The appropriate design and implementation of energy and land-use strategies touch upon crucial elements of developing country socio-economic development; they can also profoundly influence climate change, and must be looked at comprehensively to address all the important issues linked to them.
- Priority should be given to increasing end-use energy efficiency; expanding the use of renewable energy sources, utilising the next generation of energy technologies; and supporting suitable land use and forestry management policies.

Work on Trade and Environment

UNDP has been engaged in the topic of trade and sustainable development through a collaborative effort with UNCTAD. This resulted in a series of country-specific case studies on the relationship and impact between environmental policies in developed countries and trade opportunities of developing countries as well as the impact of trade related activities on the natural environment of developing countries. The summaries of these case studies are about to be released in a commercially published book.

From the UNDP perspective, perhaps the most important finding was the need for developing countries to build capacity to address trade and environment issues in two areas: First in relation to their participation in international trade negotiations, whether bilateral or multilateral. Second, for the export sectors, especially small and medium size enterprises, to respond to environmental regulations in importing countries. Both these issues are now widely recognised by the international community. However, greater emphasis must be placed on addressing them by OECD countries if trade is effectively to complement or replace aid.

The OECD has been concerned with this issue for some time throughout the organisation and its work should continue to take full account of these overriding needs of these developing countries in order to foster an effective multilateral trade system.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-FEB-1999 19:43:25.00

SUBJECT:

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

READ:UNKNOWN

TEXT:

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

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D82]MAIL44489505M.036 to ASCII,
The following is a HEX DUMP:

February 16, 1999

MEMORANDUM FOR JOHN PODESTA
KAREN TRAMONTANO

FROM: Janet Yellen

SUBJECT: Background information on unions, manufacturing, and trade
for your upcoming meeting with the AFL-CIO.

This memorandum presents data on union membership, wages, and employment and on unionized industries. It describes recent trends and places them in perspective. The key short term perspective is the overall strength of the U.S. labor market: key unionized sectors have been adversely affected by recent developments in the world economy, but the overall job market is the best it has been in a generation. The key long term perspective is the decline in manufacturing employment as a share of total employment associated with strong productivity growth (not trade). Studies suggest that growing demand for skilled workers rather than the impact of trade on unskilled workers has been the most important factor contributing to rising wage inequality over the past two to three decades.

I. Trends in union membership

- Declining membership share. The share of wage and salary workers who were union members fell to 13.9 percent in 1998, down from 14.1 percent in 1997 and 20.1 percent in 1983, the first year for which comparable data are available. Other data show that over a quarter of the entire labor force was unionized in the mid-1950s.
- Number of members. The number of wage and salary workers who were union members was 16.2 million in 1998, little changed from 1997 and down some from 17.7 million in 1983. Other data show that economy-wide union membership had reached roughly 20 million in the 1970s.
- Private versus public sector membership. About three-fifths of union members were in private nonagricultural industries in 1998 and about two-fifths worked in government.

II. The strong labor market in 1998

Overall the labor market has been very strong in the past few years.

- In 1998, nonagricultural employment rose by 2.8 million; unemployment fell to 4.3 percent, the lowest average level since 1969; average hourly earnings rose 3.8 percent.
- Disadvantaged groups (blacks, including young black men, Hispanics, and less educated

workers) saw significant real wage gains. Black and Hispanic unemployment rates are at historic lows.

- Moreover, evidence suggests that job displacement rates in 1995-97 were well below rates in 1993-95, the share of displaced workers finding work has risen, and reemployed workers are suffering the smallest wage losses on record. Survey evidence suggests that a very high fraction of workers feel that jobs are readily obtainable.

Nevertheless, some sectors were disproportionately and adversely affected by the Asian crisis and other special factors.

- Manufacturing (9.5 million union members, 15.8 percent unionization rate)
 - Total employment stood at 18.5 million in January 1999, down about 280,000 since January 1998 but only slightly (0.6 percent) below the level at the onset of the Asian crisis in July 1997.
 - Within manufacturing, employment declines during 1998 were especially large for primary metals (22,000 jobs lost, approximately 3 percent of the total employment) and industrial machinery and equipment and electronic and electrical equipment; even larger job losses were suffered in textile mills and apparel.
- Mining (72,000 union members, 12.2 percent unionization rate). Coal mining and oil and gas extraction experienced large job losses: employment in coal mining was down 6,000 (6.4 percent) and employment in oil and gas extraction was down 39,000 (11.5 percent).

Other heavily unionized sectors have experienced sizeable employment gains over the past year.

- Construction (1.1 million union members, 17.8 percent unionization rate) saw employment rise by 284,000 jobs (4.8 percent)
- Transportation and public utilities (1.8 million union members, 25.8 percent unionization rate) saw 3 percent job growth, with notable gains in trucking.

Available evidence suggests that workers displaced from manufacturing jobs have obtained other employment, due to the strong national labor market.

- During 1998, the unemployment rate in manufacturing has dropped slightly, from 3.8 to 3.5 percent, and it remains below the national average.
- The unemployment rate in mining, by contrast rose sharply, from 3.7 to 7.4 percent during 1998.

Workers in manufacturing and mining experienced slow earnings growth over the past

year in comparison with national average gains.

- Average hourly earnings in manufacturing rose 2 percent, compared with 4 percent for all workers. Average weekly earnings rose just 0.6 percent versus 3.4 percent for the economy as a whole due to a relative decline in weekly hours worked in manufacturing.
- In mining, average hourly earnings rose a healthy 4.2 percent, but with fewer hours worked, weekly pay declined by 1.6 percent.
- Construction workers saw pay gains of about 3.0 percent in hourly and 3.8 percent in weekly earnings.

Both the manufacturing and the service industries are highly diverse in terms of pay and job quality. Jobs lost in manufacturing have not uniformly been high paying and jobs gained in services have not uniformly been low-paying.

- Jobs in some impacted industries—mining and durable manufacturing, especially steel—pay well above average for workers in production and nonsupervisory positions. However, jobs in textiles and apparel pay substantially below average.
- Construction jobs pay high average hourly wages, close to those in mining; jobs in transportation and public utilities also offer high pay.
- Within the broad service sector, pay differs substantially across sectors. Previous work by the CEA suggests that, since 1993, job growth in the service sector has been disproportionately concentrated in occupations and sectors within services paying above average wages. Thus, it is misleading to caricature new service sector jobs as “hamburger flipping jobs.” For example, jobs in the high-paying finance, insurance and real estate sector grew especially rapidly in 1998 (this sector had 150,000 union jobs and a 2 percent unionization rate).

III. Longer term economic trends affecting manufacturing

The share of manufacturing (and mining) in total U.S. employment has been on a downward trend for several decades.

- Manufacturing’s share of non-farm payroll employment declined from about 24 percent to about 15 percent over the last two decades, a continuation of an even longer term trend. Mining’s share of total employment also fell. In contrast, construction’s employment share has been stable and the employment share of service producing industries has grown substantially.
- The total number of employees in manufacturing (18.7 million in 1998) has fluctuated within narrow bounds since the 1960s, rising from 16.8 million workers in 1960 to a peak of 21 million in 1979. Manufacturing employment rose 3.6 percent between 1993 and 1998. In mining, employment has been declining in absolute terms since 1980.

- Although the number of manufacturing jobs has been roughly constant, the amount of job creation and job destruction that goes on is remarkably large. Over a typical 12-month interval, about one in ten manufacturing jobs disappears and a comparable number of new manufacturing jobs open up at different locations.

Rapid productivity growth in manufacturing (and mining) has allowed an increasing proportion of the nation's productive resources to be devoted to producing other goods and services and has thus contributed to a rising standard of living. But it has also meant that a smaller fraction of the labor force is working in manufacturing.

- Since 1960, productivity (output per hour) has roughly tripled in manufacturing while doubling for the economy as a whole. Productivity growth in manufacturing averaged 2.9 percent per year versus 1.8 percent in the economy as a whole.
- Since 1993, the productivity gap has widened with productivity in manufacturing growing at 3.9 percent per annum, almost three times as fast as the 1.4 percent pace for the economy as a whole.
- Within manufacturing, the annual pace of productivity growth has been far more rapid for durable than for nondurable manufacturing (3.4 percent per year versus 2.3 percent per year since 1960.)
- The share of manufacturing in total GDP has declined from 23 percent in 1977 to 17 percent in 1997. Manufactured goods account for a dwindling percentage of the spending of American households. As income rises, people typically spend an increasing fraction on health, education and other services. This long-term trend is apparent in other countries as well. Services are rising in importance in both developing and emerging market countries.

Studies suggest that foreign trade is not primarily responsible for the long-term decline in manufacturing employment, although the Asian crisis has played a role in manufacturing's recent performance.

- Calculations by Robert Lawrence and others suggest that if the entire trade deficit after 1975 had been eliminated through extra production of U.S. manufactured goods, manufacturing payrolls in 1994 would have been only 8 percent higher; manufacturing's share of total employment would have fallen by 14 rather than 15 percentage points.
- The U.S. is a net importer of manufactured goods and net imports have risen, but net imports have not increased enough to explain the decline in manufacturing employment.
 - Although manufacturing imports have risen, substantially in some sectors, exports have also risen substantially.

- Within manufacturing, many sectors have seen strong export gains.

IV. Trade and Wages

Over the last 25 years, real wage growth has been slow and the gap between the wages of skilled and unskilled workers has widened.

- Real hourly compensation closely mirrors the behavior of labor productivity. Between 1959 and 1973, productivity and hourly compensation both grew in excess of 2.5 percent annually. Since 1973, annual real compensation, properly measured, and productivity have both grown at about 1 percent. The post 1973 productivity slowdown is the main reason for slower growth in labor compensation.
- Since the 1970's earnings inequality (including the gap between the wages of skilled and unskilled workers) has risen substantially.
 - Between 1973 and 1993 the median hourly wages of men aged 20-64 with high school but no college actually fell 12 percent in real terms; the hourly wages of women fell 3 percent in real terms. Since 1993, there has been a modest improvement with the median hourly wages of men, aged 20-64, up 2 percent and those of women up 3 percent.
- It is not possible to pinpoint precisely the causes for the widening skill gap, but a large body of research attributes most to broad-based technological change that is biased in favor of skilled workers. Such inequality is evident in all sectors, not just in manufacturing. In today's increasingly high-tech economy, the payoff to skill and the ability to use computers has risen. That is one reason that the Administration's emphasis on education and lifelong skills upgrading is so critical.
 - The reduced demand for unskilled labor is broad based and has occurred throughout the economy. The utilization of unskilled (less than high school diploma) workers declined by even more in sectors sheltered from trade, including construction and retail trade, than in sectors exposed to trade (66 percent decline versus 59 percent decline.)
- About a fifth of the decline in real wages may be due to factors such as decreased unionization and the decline in the real value of the minimum wage. However, inequality has increased among groups of workers such as college graduates who are unlikely to belong to unions.
 - Unions have long provided wage premiums to less skilled workers. Studies suggest that, other factors equal, working in a unionized firm raises a worker's earnings by 10 to 15 percent.
 - During much of the 1980s, compensation grew more slowly in the unionized

sector than in the rest of the economy but more recently, the trends have been similar in both sectors.

- The share of employed workers belonging to unions has eroded from a peak of roughly 30 percent through much of the 1950s and 1960s to about 14 percent in 1996, a natural consequence of the rising employment share in less-unionized sectors (services), regions (the South), and demographic groups (women).

Most estimates find that international trade accounts for only between 10 and 15 percent of the increase in earnings inequality.

- This might understate the role of globalization, in that there is an interactive effect between the two factors: it is possible that education and technology would not be as important as they are if the U.S. were closed off from the rest of the world.
- But Americans on average would have lower real incomes in the absence of increased trade. Technological innovation and skills are our international comparative advantage; and international competition keeps industries like autos on their toes, which is one reason why Detroit produces better cars today than they did in the 1970s.

The wage gap may have stopped widening.

- 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 current economic expansion has progressed so far that even unskilled workers are in high demand. Over the last two years, the demand for less skilled workers as well as their wages have risen rapidly.

V. Thinking about international trade

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

- Roughly a quarter of U.S. growth since 1993 represents the contribution of exports, and this includes the period since mid-1997 when exports have been hard hit by the Asian crisis.
 - The Commerce Department estimates that each \$1 million of exports supports about 13 jobs, so 1998's \$959 billion of exports supported about 12.5 million 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 assume that without the increase in the trade deficit, the U.S. economy would have grown much more rapidly than it actually did.

- For the last year or more the economy has been operating at “full employment.” Although the Asian crisis diminished demand for manufactured goods, interest rates also declined as a consequence of the crisis leading to offsetting increases in employment in other sectors, particularly housing and services.
- Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.
- A country’s current account deficit equals the difference between its investment and saving. During the 1990s, national investment and national saving have both increased but investment increased faster, attracting foreign capital to the United States, resulting in a strong dollar and growing current account deficits. In the 1980s, growing current account deficits were the consequence of weak national investment and even weaker saving. Trade deficits due to an investment boom are less of concern because investment generates the payoff needed to finance foreign borrowing.
- If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us. Erecting new barriers to imports would suppress imports but also end up depressing our own exports and curtailing job opportunities for Americans in high-paying export industries.
 - 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, those countries 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 U.S. 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 and imports are high and rising (as opposed to the difference between them) together is more conducive to worldwide growth and income gains.
 - Both theoretical and empirical research shows that countries that are highly open to trade have higher income levels and growth rates. The benefits from openness result from deploying domestic workers in industries where they are relatively most productive, purchasing imported intermediate and final goods at lower costs than they could be produced domestically; in addition, trade increases competition resulting in more rapid innovation and expanded consumer choice.
 - According to one statistical estimate, every one-percentage-point increase in openness (controlling for such important determinants as investment and education) raises income by .34 per cent. U.S. 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 percent.

- Export jobs are good jobs. Workers in export-oriented firms earn 13-18 percent more than other workers according to Commerce Dept. and other estimates. Even after adjusting for various worker characteristics, workers in export-oriented firms earn more than others (5 percent more within the category of skilled workers, 7 percent more within unskilled workers). And foreign trade barriers are often highest in the industries where America leads the world—agriculture, financial services, pharmaceuticals, aircraft and telecommunications.
- 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 U.S. imports come from trade partners that have wages at least 90 percent of the U.S. level. And more than one-third of U.S. foreign direct investment in manufacturing facilities went to countries with labor costs above the U.S. level. Often they have more rigorous labor standards as well.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-FEB-1999 15:20:47.00

SUBJECT: new, slightly rearranged, draft

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

READ:UNKNOWN

TEXT:

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

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

TEXT:

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The following is a HEX DUMP:

February 15, 1999

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Karen Tramontano

FROM: Janet Yellen

SUBJECT: Background information on unions, manufacturing, and trade for your upcoming meeting with the AFL-CIO.

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- Disadvantaged groups (blacks, Hispanics, including teenagers, less educated workers) saw unusually large real wage gains. Black and Hispanic unemployment rates are at historic lows.
- Moreover, evidence suggests that job displacement rates in 1995-97 were well below rates in 1993-95, the share of displaced workers finding work has risen, and reemployed workers are suffering the smallest wage losses on record. Survey evidence suggests that a very high fraction of workers feel that jobs are readily obtainable.

Nevertheless, some sectors were disproportionately and adversely affected by the Asian crisis and other special factors.

- Manufacturing (9.5 million union members, 15.8 percent unionization rate)
 - Total employment stood at 18.5 million in January 1999, down about 280,000 since January 1998 but at virtually the same level as in July 1997 at the outset of the Asian crisis.
 - Within manufacturing, employment declines during 1998 were especially large for primary metals (22,000 jobs lost, approximately 3 percent of the total employment) and industrial machinery and equipment and electronic and electrical equipment; even larger job losses were suffered in textile mills and apparel.
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- Transportation and public utilities (1.8 million union members, 25.8 percent unionization rate) saw 3 percent job growth, with notable gains in trucking.

Available evidence suggests that workers displaced from manufacturing jobs have obtained other employment, due to the strong national labor market.

- During 1998, the unemployment rate in manufacturing has dropped slightly, from 3.8 to 3.5 percent, and it remains below the national average.
- The unemployment rate in mining, by contrast has rose sharply, from 3.7 to 7.4 percent

during 1998.

Workers in manufacturing and mining experienced slow earnings growth during 1998 in comparison with national average gains.

- Average hourly earnings in manufacturing rose 2 percent, compared with 4 percent for all workers. Average weekly earnings rose just 0.5 percent versus 3.4 percent for the economy as a whole due to a relative decline in weekly hours worked in manufacturing.
- In mining, average hourly earnings rose a healthy 4.2 percent during 1998, but with fewer hours worked, weekly pay declined by 1.6 percent.
- Construction workers saw pay gains of about 3.8 percent in both hourly and weekly earnings.

Both the manufacturing and the service industries are highly diverse in terms of pay and job quality. Jobs lost in manufacturing have not uniformly been high paying and jobs gained in services have not uniformly been low-paying.

- Jobs in some impacted industries—mining and durable manufacturing, especially steel—pay well above average for workers in production and nonsupervisory positions. However, jobs in textiles and apparel pay substantially below average.
- Construction jobs pay high average hourly wages, close to those in mining; jobs in transportation and public utilities also offer high pay.
- Within the broad service sector, pay differs substantially across sectors. Previous work by the CEA suggests that, since 1993, job growth in the service sector has been disproportionately concentrated in occupations and sectors within services paying above average wages. Thus, it is misleading to caricature new service sector jobs as “hamburger flipping jobs.” For example, jobs in the high-paying finance, insurance and real estate sector grew especially rapidly in 1998 (this sector had 150,000 union jobs and a 2 percent unionization rate).

III. Longer term economic trends affecting manufacturing

The share of manufacturing (and mining) in total U.S. employment has been on a downward trend for several decades.

- Manufacturing’s share of non-farm payroll employment declined from about 24 percent to about 15 percent over the last two decades, a continuation of an even longer term trend. Mining’s share of total employment also fell. In contrast, construction’s employment share has been stable and the employment share of service producing industries has grown substantially.
- The total number of employees in manufacturing (18.7 million in 1998) has fluctuated

within narrow bounds since the 1960s, rising from 16.8 million workers in 1960 to a peak of 21 million in 1979. Since 1993, manufacturing employment is up about 3.5 percent. In mining, employment has been declining in absolute terms since 1980.

- Although the number of manufacturing jobs has been roughly constant, the amount of job creation and job destruction that goes on is remarkably large. Over a typical 12-month interval, about one in ten manufacturing jobs disappears and a comparable number of new manufacturing jobs open up at different locations.

Rapid productivity growth in manufacturing (and mining) has allowed an increasing proportion of the nation's productive resources to be devoted to producing other goods and services and has thus contributed to a rising standard of living. But it has also meant that a smaller fraction of the labor force is working in manufacturing.

- Since 1960, productivity (output per hour) has roughly tripled in manufacturing while doubling for the economy as whole. Productivity growth in manufacturing averaged 2.9 percent per year versus 1.8 percent in the economy as a whole.
- Since 1993, the productivity gap has widened with productivity in manufacturing growing a 3.9 percent per annum, almost three times as fast as the 1.4 percent pace for the economy as a whole.
- Within manufacturing, the pace of productivity growth has been far more rapid for durable than for nondurable manufacturing (3.4 percent vs 2.3 percent since 1960.)
- The share of manufacturing in total GDP has declined from 23 percent in 1977 to 17 percent in 1996. Manufactured goods account for a dwindling percentage of the spending of American households. As income rises, people typically spend an increasing fraction on health, education and other services. This long-term trend is apparent in other countries as well. Services are rising in importance in both developing and emerging market countries.

Studies suggest that foreign trade is not primarily responsible for the long-term decline in manufacturing employment, although the Asian crisis has played a role in manufacturing's recent performance.

- Calculations by Robert Lawrence and others suggest that if the entire trade deficit after 1975 had been eliminated through extra production of U.S. manufactured goods, manufacturing payrolls in 1994 would have been only 8 percent higher; manufacturing's share of total employment would have fallen by 14 rather than 15 percentage points.
- The U.S. is a net importer of manufactured goods and net imports have risen, but net imports have not increased enough to explain the decline in manufacturing employment.

- Although manufacturing imports have risen, substantially in some sectors, exports have also risen substantially.
- Within manufacturing, many sectors have seen strong export gains.

IV. Trade and Wages

Over the last 25 years, real wage growth has been slow and the gap between the wages of skilled and unskilled workers has widened.

- Real hourly compensation closely mirrors the behavior of labor productivity. Between 1959 and 1973, productivity and hourly compensation both grew in excess of 2.5 percent annually. Since 1973, annual real compensation, properly measured, and productivity have both grown at about 1 percent. The post 1973 productivity slowdown is the main reason for slower growth in labor compensation.
- Since the 1970's earnings inequality (the gap between the wages of skilled and unskilled workers) has risen substantially.
 - Between 1973 and 1993 the median hourly wages of men aged 20-64 with high school but no college actually fell 12 percent in real terms; the hourly wages of women fell 3 percent in real terms. Since 1993, there has been a modest improvement with the median hourly wages of men, aged 20-64, up 2 percent and those of women up 3 percent.
- It is not possible to pinpoint precisely the causes for the widening skill gap, but a large body of research attributes most to broad-based technological change that is biased in favor of skilled workers. Such inequality is evident in all sectors, not just in manufacturing. In today's increasingly high-tech economy, the payoff to skill and the ability to use computers has risen. That is one reason that the Administration's emphasis on education and lifelong skills upgrading is so critical.
 - The reduced demand for unskilled labor is broad based and has occurred throughout the economy. The utilization of unskilled (less than high school diploma) workers declined by even more in sectors sheltered from trade, including construction and retail trade, than in sectors exposed to trade (66 percent decline vs. 59 percent decline.)
- Some of the decline in real wages may be due to factors such as decreased unionization and the decline in the real value of the minimum wage. However, inequality has increased among groups of workers such as college graduates who are unlikely to belong to unions.
 - Unions have long provided wage premiums to less skilled workers. Studies

suggest that, other factors equal, working in a unionized firm raises a worker's earnings by 10 to 15 percent.

- During much of the 1980s, compensation grew more slowly in the unionized sector than in the rest of the economy but more recently, the trends have been similar in both sectors.
- The share of employed workers belonging to unions has eroded from a peak of roughly 30 percent through much of the 1950s and 1960s to about 14 percent in 1996, a natural consequence of the rising employment share in less-unionized sectors (services), regions (the South), and demographic groups (women).

Most estimates find that international trade accounts for only between 5 and 30 percent of the increase in earnings inequality.

- This might understate the role of globalization, in that there is an interactive effect between the two factors: it is possible that education and technology would 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 in the absence of increased trade. 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 wage gap may have stopped widening.

- 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 current economic expansion has progressed so far that even unskilled workers are in high demand. Over the last two years, the demand for less skilled workers as well as their wages have risen rapidly.

V. Thinking about international trade

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

- Roughly a quarter of U.S. growth since 1993 represents the contribution of exports, and this includes the period since mid-1997 when exports have been hard hit by the Asian crisis.
 - The Commerce Department estimates that each \$1 million of exports supports about 13 jobs, so 1998's \$959 billion of exports supported about 12.5 million 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 assume that without the increase in the trade deficit, the US economy would have grown much more rapidly than it actually did.

- For the last year or more the economy has been operating at “full employment.” Although the Asian crisis diminished demand for manufactured goods, interest rates also declined as a consequence of the crisis leading to offsetting increases in employment in other sectors, particularly housing and services.
- Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.
- A country’s current account deficit equals the difference between its investment and saving. During the 1990s, both national investment and national saving have both increased but investment increased faster, attracting foreign capital to the United States, resulting in a strong dollar and growing current account deficits. In the 1980s, growing current account deficits were the consequence of weak national investment and even weaker saving. Trade deficits due to an investment boom are less of concern because investment generates the payoff needed to finance foreign borrowing.
- If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us. Erecting new barriers to imports would suppress imports but also end up depressing our own exports and curtailing job opportunities for Americans in high-paying export industries.
 - 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, those countries 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 and imports are high and rising (as opposed to the difference between them) together is more conducive to worldwide growth and income gains.
 - Both theoretical and empirical research shows that countries that are highly open to trade have higher income levels and growth rates. The benefits from openness result from deploying domestic workers in industries where they are relatively most productive, purchasing imported intermediate and final goods at lower costs than they could be produced domestically; in addition, trade increases competition

resulting in more rapid innovation and expanded consumer choice.

- According to one statistical estimate, every one-percentage-point increase in openness (controlling 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 percent.
- Export jobs are good jobs. Workers in export-oriented firms earn 13-16 percent more than other workers according to Commerce Dept. and other estimates. Even after adjusting for various worker characteristics, workers in export-oriented firms earn more than others (10 percent more within the category of skilled workers, 5 percent more within unskilled workers. And foreign trade barriers are often highest in the industries where American leads the world--agriculture, financial services, pharmaceuticals, aircraft and telecommunications.
- 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 we do. Often they have more rigorous labor standards as well.

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, including commercial aircraft, may also 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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-FEB-1999 09:24:10.00

SUBJECT: AFL-CIO Talking Points

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Attached are a revised set of talking points for John Podesta's meeting with AFL/CIO leaders. We need to get this out by COB so I would be grateful for any comments.===== ATTACHMENT 1 =====

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D15]MAIL432912945.036 to ASCII,
The following is a HEX DUMP:

February 15, 1999

MEMORANDUM TO: John Podesta
Karen Tramontano

FROM: Janet Yellen

SUBJECT: Background information on manufacturing and trade for your upcoming meeting with the AFL-CIO.

I. Recent trends in employment, unemployment, and wages.

- **U.S. labor markets performed very well in 1998 and the gains for workers were broad-based:** nonagricultural employment rose by 2.9 million; unemployment fell to 4.3%, the lowest average level since 1969; average hourly earnings rose 3.8%. Disadvantaged groups (blacks, hispanics, including teenagers, less educated workers) saw unusually large real wage gains. Black and hispanic unemployment rates are at historic lows. Moreover, evidence suggests that job displacement rates in 1995-97 were well below rates in 1993-95, the share of displaced workers finding work has risen, and reemployed workers are suffering the smallest wage losses on record. Survey evidence suggests that a very high fraction of workers feel that jobs are readily obtainable.
- **Nevertheless, manufacturing and mining were disproportionately and adversely impacted affected by the Asian crisis in 1998.**
 - Total employment in manufacturing stood at 18,544,000 in January 1999, down about 161,000 since the beginning of the year but at virtually the same level as in July 1997 at the outset of the Asian crisis.
 - Within manufacturing, employment declines during 1998 were especially large for primary metals (22,000 jobs lost, approximately 3% of the total employment) and industrial machinery and equipment and electronic and electrical equipment; even larger job losses were suffered in textile mills and apparel.
 - Large job losses were suffered in mining, especially coal mining and oil and gas extraction: employment in coal mining was down 46,000 (7.8%) and employment in oil and gas extraction was down 39,000 (11.5%).
- **Other heavily unionized sectors have experienced sizeable employment gains over the past year.**
 - Construction employment rose by 284,000 jobs (4.8%)

- Employment in transportation and public utilities was up 3% with notable gains in trucking.
- **Substantial job growth over the past year has occurred in less unionized sectors including wholesale and retail trade, finance, insurance and real estate, and a wide variety of services.**
- **Available evidence suggests that workers displaced from manufacturing jobs have obtained other employment, due to the strong national labor market.**
 - During 1998, the unemployment rate in manufacturing has dropped slightly, from 3.8% to 3.5% and remains below the national average.
 - The unemployment rate in mining, in contrast has risen sharply, from 3.7% to 7.4% during 1998.
- **Workers in manufacturing and mining experienced slow earnings growth during 1998 in comparison with national average gains.**
 - Increases in hourly and weekly earnings of production and nonsupervisory workers in manufacturing fell short of the gains for such workers in the economy as a whole. Average hourly earnings in manufacturing rose 2.0% versus 4% in aggregate. Average weekly earnings rose just 0.5% versus 3.4% for the economy as a whole due to a relative decline in weekly hours worked in manufacturing.
 - In mining, average hourly earnings rose at a healthy 4.2% during 1998, but weekly pay declined by 1.6%.
 - Construction workers saw much larger pay gains of about 3.75% in both hourly and weekly earnings.
- **The manufacturing and service sectors are both highly diverse in terms of job pay and quality. Some manufacturing sectors adversely affected by the Asian crisis pay exceptionally high wages while others pay below average wages. Similarly, service sector employment has expanded in occupations and industries offering good jobs at above average wages and not just in low wage service jobs.**
 - Jobs in some impacted industries--mining and durable manufacturing, especially steel-- pay well above average for workers in production and nonsupervisory positions. However, jobs in textiles and apparel pay substantially below average.
 - Construction jobs pay high average hourly wages, close to those in mining; jobs in transportation and public utilities also offer high pay.

- Within the broad service sector, pay differs substantially across sectors. Previous work by the CEA suggests that, since 1993, job growth in the service sector has been disproportionately concentrated in occupations and sectors within services paying above average wages. Thus, it is unfair to caricature new service sector jobs as “hamburger flipping jobs.” For example, jobs in the high-paying finance, insurance and real estate sector grew especially rapidly in 1998.

II. Longer Term Economic Trends affecting Manufacturing

- **The share of manufacturing (and mining) in total U.S. employment has been on a downward trend for several decades. The growing trade deficit is not primarily responsible. The two major culprits are productivity growth, which has been far more rapid in these sectors than for the economy as a whole, and a falling share of income being spent on manufactured goods. The forces are identical to those which afflicted agriculture earlier in this century.**
 - Manufacturing’s share of non-farm payroll employment declined from about 24% to about 15% over the last two decades, a continuation of an even longer term trend. Mining’s share of total employment also fell. In contrast, construction’s employment share has been stable and the employment share of service producing industries has grown substantially.
- The total number of employees in manufacturing has fluctuated within narrow bounds since the 1960s, rising from 16.8 million workers in 1960 to a peak of 21 million in 1979 to 18.7 million in 1998. Since 1993, manufacturing employment is up about 3.5%. In mining, employment has been declining in absolute terms since 1980.
- The decline in manufacturing’s share of total employment primarily reflects the far more rapid pace of productivity improvement in manufacturing (and mining) than in the economy as a whole, not the adverse impact of international trade. (See Chart)
 - Since 1960, productivity (output per hour) has roughly tripled in manufacturing while doubling for the economy as whole. Productivity growth in manufacturing averaged 2.85% per annum versus 1.77% in the economy as a whole.
 - Since 1993, the productivity gap has widened with productivity in manufacturing growing a 3.9% per annum, almost three times as fast as the 1.36% pace for the economy as a whole.
 - Within manufacturing, the pace of productivity growth has been far more rapid for durable than for nondurable manufacturing (3.4% vs 2.3% since 1960.)
 - As in manufacturing, productivity growth in mining has been rapid, with productivity growth in coal mining rising at a 7% annual pace since 1980.

- In addition, the share of manufacturing in total GDP has declined from 23% in 1977 to 17% in 1996.
- Manufactured goods account for a dwindling percentage of the spending of American households. As income rises, people typically spend an increasing fraction on health, education and other services. This long trend is apparent in other countries as well. Services are rising in importance in both developing and emerging market countries.
- The consequence is illustrated by an example: employment in steel has declined since 1973 while hundreds of thousands of jobs have been created for hotel and motel workers. Why? The productivity of steelworkers rose 125% between 1973 and 1995 versus 11% for workers in the hotel and motel industry. At the same time, the demand for lodging nearly doubled, while demand for steel remained roughly unchanged.
- In mining, strong productivity growth allowed output to grow at a 1.6% annual rate between 1980 and 1995 even as employment fell at a 6.1% annual rate.

Trade is not responsible for the longer-term trend afflicting manufacturing, although the Asian crisis has played a role in manufacturing's recent performance.

- Calculations by Robert Lawrence and others suggest that if the entire trade deficit after 1975 had been eliminated through extra production of U.S. manufactured goods, manufacturing payrolls in 1994 would have been only 8 percent higher, falling by 14 rather than 15 percentage points as a share of total employment.
- *The U.S. is a net importer of manufactured goods and net imports have risen, but net imports have not increased enough to explain the decline in manufacturing employment.*
 - *Although manufacturing imports have risen, substantially in some sectors, exports have also risen substantially.*
- *Within manufacturing, many sectors have seen strong export gains.*

III. Trade and Wages

- **Over the last 25 years, real wage growth has been slow and the gap between the wages of skilled and unskilled workers have widened. Less skilled workers, particularly men, have suffered absolute real wage losses until recently. However, trade is not the main culprit in the view of most scholars. Slow productivity growth and a shift in labor demand away from unskilled and toward skilled workers are the**

key driving forces.

- Real hourly compensation closely mirrors the behavior of labor productivity: Between 1959 and 1973, productivity and hourly compensation both grew in excess of 2.5% annually. Since 1973, annual real compensation, properly measured, and productivity have both grown at about 1 percent. The post 1973 productivity slowdown, not trade, explain slow compensation growth.
- Since the 1970's earnings inequality (the gap between the wages of skilled and unskilled workers) has risen substantially.
 - Between 1973 and 1993 the median hourly wages of men aged 20-64 with high school but no college actually fell 12% in real terms; the hourly wages of women fell 3% in real terms. Since 1993, there has been a modest improvement with the median hourly wages of men, aged 20-64, up 2% and those of women up 3%.
- It is not possible to precisely pinpoint the causes for the widening skill gap, but a large body of research attributes most to broad-based technological change that is biased in favor of skilled workers. In today's increasingly high-tech economy, the payoff to skill and the ability to use computers has risen. That is one reason that the Administration's emphasis on education and lifelong skills upgrading is so critical.
 - The reduced demand for unskilled labor is broadbased and has occurred throughout the economy. The utilization of unskilled (less than high school diploma) workers declined by even more in sectors sheltered from trade, including construction and retail trade, than in sectors exposed to trade (66% decline vs. 59% decline.)
- A small part of the decline in real wages may be due to factors such as decreased unionization and the decline in the real value of the minimum wage. However, inequality has increased among groups of workers such as college graduates who are unlikely to belong to unions.
 - Unions have long provided wage premiums to less skilled workers. Studies suggest that, other factors equal, working in a unionized firm raises a worker's earnings by 10 to 15%.
 - During much of the 1980s, compensation grew more slowly in the unionized sector than in the rest of the economy but more recently, the trends have been similar in both sectors.

- The share of employed workers belonging to unions has eroded from a peak of roughly 30 percent through much of the 1950s and 1960s to about 14 percent in 1996, a natural consequence of the rising employment share in less-unionized sectors (services), regions (the South), and demographic groups (women).
- Most estimates of the role of international trade as a cause of rising earnings inequality 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 in the absence of increased trade. 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.
 - 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. Over the last two years, the demand for less skilled workers as well as their wages have risen rapidly.
- **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 assume that without the increase in the trade deficit, the US economy would have grown much

more rapidly than it actually did.

- For the last year or more the economy has been operating at “full employment.” Although the Asian crisis diminished demand for manufactured goods, interest rates also declined as a consequence of the crisis leading to offsetting increases in employment in other sectors, particularly housing and services.
- Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.
- A country’s current account deficit equals the difference between its investment and saving. During the 90s, both national investment and national saving have both increased but investment increased faster, attracting foreign capital to the United States, resulting in a strong dollar and growing current account deficits. In the 1980s, growing current account deficits were the consequence of weak national investment and even weaker saving. Trade deficits due to an investment boom are less of concern because investment generates the payoff needed to finance foreign borrowing.
- If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us. Erecting new barriers to imports would suppress imports but also end up depressing our own exports and curtailing job opportunities for Americans in high-paying export industries.
 - 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 more conducive to worldwide growth and income gains.
 - Both theoretical and empirical research shows that countries that are highly open to trade have higher income levels and growth rates. The

benefits from openness result from deploying domestic workers in industries where they are relatively most productive, purchasing imported intermediate and final goods at lower costs than they could be produced domestically; in addition, trade increases competition resulting in more rapid innovation and expanded consumer choice.

- According to one statistical estimate is that every one-percentage-point increase in openness (controlling 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 according to Commerce Dept. and other estimates. Even after adjusting for various worker characteristics, workers in export-oriented firms earn more than others (10 % more within the category of skilled workers, 5% more within unskilled workers. And foreign trade barriers are often highest in the industries where American leads the world--agriculture, financial services, pharmaceuticals, aircraft and telecommunications.
- 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 we do. Often they have more rigorous labor standards as well.
- **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, including commercial aircraft, may also 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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-FEB-1999 11:13:21.00

SUBJECT: No Import & Export Price Release Tonight; no encryption faxing this week

TO: Janet L. Yellen (CN=Janet L. Yellen/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: Jeffrey A. Frankel (CN=Jeffrey A. Frankel/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

CC: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

CC: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

CC: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

The commercial encryption fax line between BLS and the CEA is not working. As a result, BLS cannot use this method to send the import & export price release to us. If we want anything this week, we will have to send a messenger. When Debbie Klein (the Associate Commissioner) asked if we wanted to send a messenger to retrieve the Import & Export Price release, I said that we could do without it. But please let me know if we want this release enough to send a messenger.

On a related front, I am looking into setting up an encryption fax line. Our end of it would cost about \$3200 + a fax machine, although it is not clear who would pay. Another alternative is encrypted modem-to-modem transfer. The Census would like more modem-to-modem transfer. I will keep you posted as I learn more.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 22:13:26.00

SUBJECT: environment "cluster" meeting?

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Since I will be out of town next week, Steve and I thought it would be useful if we could have a meeting at the end of this week to discuss the transition from Jeff to Lawrence on environment issues. Jeff, we would like to meet with you to discuss these issues, and if Janet and Becky are interested, we could hold an old cluster-like meeting. We would focus on climate change (there have been a fair number of diplomatic strategy meetings lately, and our developing country work has been the topic of several meetings as well), air quality rules that are on their way (regional haze, Tier II), and electricity restructuring. Let us know what you think about this. Thanks,

Joe

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 08:55:03.00

SUBJECT: interest-rate effects of debt reduction

TO: robert.cumby@treas.sprint.com (robert.cumby@treas.sprint.com [UNKNOWN])

READ:UNKNOWN

TO: David.Wilcox@ms01.do.treas.sprint.com (David.Wilcox@ms01.do.treas.sprint.com [UNKNOWN])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Jon Orszag just called to let me know that they are going to use the interest-rate paragraph we constructed yesterday.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 11:24:34.00

SUBJECT: Re: My thoughts on agenda for tomorrow's budget accounting meeting

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

READ:UNKNOWN

TEXT:

----- Forwarded by Douglas W. Elmendorf/CEA/EOP on
02/17/99 11:26 AM -----

Douglas_W_Elmendorf @ oa.eop.gov

02/17/99 10:48:14 AM

Record Type: Record

To: Jeff B. Liebman/OPD/EOP

cc: david.wilcox @ treas.sprint.com, Douglas W. Elmendorf/CEA/EOP

Subject: Re: My thoughts on agenda for tomorrow's budget accounting meeting

Substantive thoughts:

1. Our chief concern should be not to re-spend the transferred amounts. This (and the passage of the proposal at all) requires making the new system explainable and convincing. This in turn requires as much simplicity and logical consistency as we can muster -- even if such a solution is sub-optimal from a policy perspective.

Note that the term "unified budget" doesn't seem to appear in either OMB or CBO's documents. OMB says just "surplus" and CBO says "total surplus," at least in the main tables.

2. In this regard, I think our current choice to impute an interest-equivalent return on equities is a reasonable and defensible one. But I would support reasonable alternatives if they better met the criteria above. For example, I am open to scoring realized gains and dividends. Two reasons: first, it's easier to explain; and second, I think we need to score realizations in the "drawdown" phase, and we ought to have the same rules over the whole period.

On the drawdown question, I see Larry's concern about redemptions, but don't support his conclusion. Asset sales benefit the budget under current rules, and there's a virtue in continuing with this policy. Moreover, since the asset purchases essentially hurt the budget (under our new scoring rules), there's a logic to doing the reverse later. Further, Jeff's point is indeed a problem, in my view.

We should also be clear that "realizing the equity premium" means what it sounds like -- that we score the sale price less the basis, which has been stepped up for the implicit return along the way.

(How large would this effect be during the buildup phase? Vanguard says that their stock index funds have annual turnover of about 25%. Even though I've pushed the importance of worrying about this issue, I'm surprised this number is so high. If the net inflow is always positive -- as is probably true for Vanguard and would be for SS for 15 yrs -- then only buybacks and equity issuance require realizations, and I wouldn't have guessed they mattered that much. But the amount of unrealized gains could still be large: for example, if all of the turnover comes from a few companies that keep buying back their stock, the rest of the portfolio might not be realized for decades.

Before seeing the Vanguard number, I thought that one way to approach this question was to note that the dividend-equivalent yield is about 3-1/2%, and it seems that this is the amount of realization that would actually occur. Since this should probably be viewed as a real yield, it's only about 20% above the return on debt. But this seems inconsistent with the Vanguard number -- what am I missing?)

3. I strongly disagree with having different ex ante and ex post budget scoring rules. I have no objection to Analytical Perspectives presenting a govt balance sheet with mark-to-market trust fund balances. But I find the following scenario inconceivable:

Feb 1, 2002: OMB director: We project a surplus for the coming year of \$100 billion.

Feb 1, 2003: OMB director: Last year's surplus was \$200 billion, but we project a surplus for the coming year of \$100 billion. Press: Well, you were favorably surprised last year. Why do you expect the surplus to fall so much this coming year? OMB director: We don't really. When we look back on this year, we expect it to show a surplus of \$200 billion. But we're projecting a surplus of \$100 billion.

4. I think we should register the transfers on both the on-budget and off-budget side. I know that David disagrees strongly, for the good reason that we would be showing massive on-budget deficits this way.

But I think it's important for the integrity of budget accounting for these two pieces to make some sense. Also, I think that people have now started to focus on the "Social Security surplus vs. non-SS surplus," and there will be a continued demand for relevant numbers that make sense. Finally, if we're concerned about triple-counting, then embedding the transfers as pseudo-outlays as widely as possible could be useful.

Here are some rough numbers for 2000-14. The plan on-budget balance = 2.1 baseline - .5 USAs - .5 other spending - .4 financing costs - .8 interest on transferred debt - .2 interest on transferred equities (I think) = -0.3 under David's approach. Subtract another 3.5 to -3.8 under my preferred approach.

I think that ignoring the new interest payments in the on-budget,

off-budget split is even worse. If we were willing to distinguish interest payments on the new debt, we should do so by counting it as a unified surplus-reducing transfer. I think that hiding those payments altogether -- which is what would happen if they didn't appear in this split -- is extremely misleading (almost duplicitous, as Marty Feldstein would say).

We should also consider how this will matter down the road. Is there also a possible problem that if we don't count the transfer of bonds against the on-budget now, there'll be pressure to count the bond redemptions against the on-budget? Total debt now corresponds to the cumulative on-budget deficit, but would not if we ignored these transfers (or the associated interest payments) unless we counted them later. Maybe this is getting too twisted.

5. Jeff should bring copies of table S-14 in the budget that does the other means of finance (OMF) bit. I don't think we should feel bound by that, but it's useful to see one of these possibilities actually worked out.

By the way, the existing OMF items are mostly reversed over time (payment timing quite quickly; student loans over several decades). In the end, debt held by public should equal the sum of cumulated surpluses. Our new thing would never be reversed, at least considering the bonds. (To reverse it, we'd have to not count as outlays the benefits paid using the redemptions of those bonds. If we'd called interest payments on the transfers "outlays" too, then we'd have to not count benefits paid using those payments either.)

Equities are trickier. Under the baseline, the change in debt held by the public equals the cumulative deficits less other means of finance associated with student loans, etc. Under the plan, the change in debt held by the public equals the cumulative deficits less several OMF items: the original other means of finance, the new transfers, AND the imputed return on equities. The last term appears because the debt issued to buy equities requires further debt service that is offset in the budget by an imputed return.

6. I think it's worth emphasizing the effect of our interest-scoring procedure. I've read several drafts of a short explanation and defense of the plan that Bob Reischauer is writing. Before I pointed it out, he included an assertion about the total obligations of the on-budget government that was wrong -- even though Jeff credits Bob with pointing this effect out originally to Gene! So this is difficult stuff to keep in one's head.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 19:49:50.00

SUBJECT: Re: Manufacturing memo

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

READ:UNKNOWN

TEXT:

Attached is a copy of the final memo. My query to you about your conversation with Jeff was not meant to be at all critical of you---I very much regret it if it sounded that way. I appreciated your help and used the material you put together on Friday. ===== ATTACHMENT 1 =====

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D81]MAIL45483225V.036 to ASCII,
The following is a HEX DUMP:

February 16, 1999

MEMORANDUM FOR JOHN PODESTA
KAREN TRAMONTANO

FROM: Janet Yellen

SUBJECT: Background information on unions, manufacturing, and trade
for your upcoming meeting with the AFL-CIO.

This memorandum presents data on union membership, wages, and employment and on unionized industries. It describes recent trends and places them in perspective. The key short term perspective is the overall strength of the U.S. labor market: key unionized sectors have been adversely affected by recent developments in the world economy, but the overall job market is the best it has been in a generation. The key long term perspective is the decline in manufacturing employment as a share of total employment associated with strong productivity growth (not trade). Studies suggest that growing demand for skilled workers rather than the impact of trade on unskilled workers has been the most important factor contributing to rising wage inequality over the past two to three decades.

I. Trends in union membership

- Declining membership share. The share of wage and salary workers who were union members fell to 13.9 percent in 1998, down from 14.1 percent in 1997 and 20.1 percent in 1983, the first year for which comparable data are available. Other data show that over a quarter of the entire labor force was unionized in the mid-1950s.
- Number of members. The number of wage and salary workers who were union members was 16.2 million in 1998, little changed from 1997 and down some from 17.7 million in 1983. Other data show that economy-wide union membership had reached roughly 20 million in the 1970s.
- Private versus public sector membership. About three-fifths of union members were in private nonagricultural industries in 1998 and about two-fifths worked in government.

II. The strong labor market in 1998

Overall the labor market has been very strong in the past few years.

- In 1998, nonagricultural employment rose by 2.8 million; unemployment fell to 4.3 percent, the lowest average level since 1969; average hourly earnings rose 3.8 percent.
- Disadvantaged groups (blacks, including young black men, Hispanics, and less educated

workers) saw significant real wage gains. Black and Hispanic unemployment rates are at historic lows.

- Moreover, evidence suggests that job displacement rates in 1995-97 were well below rates in 1993-95, the share of displaced workers finding work has risen, and reemployed workers are suffering the smallest wage losses on record. Survey evidence suggests that a very high fraction of workers feel that jobs are readily obtainable.

Nevertheless, some sectors were disproportionately and adversely affected by the Asian crisis and other special factors.

- Manufacturing (9.5 million union members, 15.8 percent unionization rate)
 - Total employment stood at 18.5 million in January 1999, down about 280,000 since January 1998 but only slightly (0.6 percent) below the level at the onset of the Asian crisis in July 1997.
 - Within manufacturing, employment declines during 1998 were especially large for primary metals (22,000 jobs lost, approximately 3 percent of the total employment) and industrial machinery and equipment and electronic and electrical equipment; even larger job losses were suffered in textile mills and apparel.
- Mining (72,000 union members, 12.2 percent unionization rate). Coal mining and oil and gas extraction experienced large job losses: employment in coal mining was down 6,000 (6.4 percent) and employment in oil and gas extraction was down 39,000 (11.5 percent).

Other heavily unionized sectors have experienced sizeable employment gains over the past year.

- Construction (1.1 million union members, 17.8 percent unionization rate) saw employment rise by 284,000 jobs (4.8 percent)
- Transportation and public utilities (1.8 million union members, 25.8 percent unionization rate) saw 3 percent job growth, with notable gains in trucking.

Available evidence suggests that workers displaced from manufacturing jobs have obtained other employment, due to the strong national labor market.

- During 1998, the unemployment rate in manufacturing has dropped slightly, from 3.8 to 3.5 percent, and it remains below the national average.
- The unemployment rate in mining, by contrast rose sharply, from 3.7 to 7.4 percent during 1998.

Workers in manufacturing and mining experienced slow earnings growth over the past

year in comparison with national average gains.

- Average hourly earnings in manufacturing rose 2 percent, compared with 4 percent for all workers. Average weekly earnings rose just 0.6 percent versus 3.4 percent for the economy as a whole due to a relative decline in weekly hours worked in manufacturing.
- In mining, average hourly earnings rose a healthy 4.2 percent, but with fewer hours worked, weekly pay declined by 1.6 percent.
- Construction workers saw pay gains of about 3.0 percent in hourly and 3.8 percent in weekly earnings.

Both the manufacturing and the service industries are highly diverse in terms of pay and job quality. Jobs lost in manufacturing have not uniformly been high paying and jobs gained in services have not uniformly been low-paying.

- Jobs in some impacted industries—mining and durable manufacturing, especially steel—pay well above average for workers in production and nonsupervisory positions. However, jobs in textiles and apparel pay substantially below average.
- Construction jobs pay high average hourly wages, close to those in mining; jobs in transportation and public utilities also offer high pay.
- Within the broad service sector, pay differs substantially across sectors. Previous work by the CEA suggests that, since 1993, job growth in the service sector has been disproportionately concentrated in occupations and sectors within services paying above average wages. Thus, it is misleading to caricature new service sector jobs as “hamburger flipping jobs.” For example, jobs in the high-paying finance, insurance and real estate sector grew especially rapidly in 1998 (this sector had 150,000 union jobs and a 2 percent unionization rate).

III. Longer term economic trends affecting manufacturing

The share of manufacturing (and mining) in total U.S. employment has been on a downward trend for several decades.

- Manufacturing’s share of non-farm payroll employment declined from about 24 percent to about 15 percent over the last two decades, a continuation of an even longer term trend. Mining’s share of total employment also fell. In contrast, construction’s employment share has been stable and the employment share of service producing industries has grown substantially.
- The total number of employees in manufacturing (18.7 million in 1998) has fluctuated within narrow bounds since the 1960s, rising from 16.8 million workers in 1960 to a peak of 21 million in 1979. Manufacturing employment rose 3.6 percent between 1993 and 1998. In mining, employment has been declining in absolute terms since 1980.

- Although the number of manufacturing jobs has been roughly constant, the amount of job creation and job destruction that goes on is remarkably large. Over a typical 12-month interval, about one in ten manufacturing jobs disappears and a comparable number of new manufacturing jobs open up at different locations.

Rapid productivity growth in manufacturing (and mining) has allowed an increasing proportion of the nation's productive resources to be devoted to producing other goods and services and has thus contributed to a rising standard of living. But it has also meant that a smaller fraction of the labor force is working in manufacturing.

- Since 1960, productivity (output per hour) has roughly tripled in manufacturing while doubling for the economy as whole. Productivity growth in manufacturing averaged 2.9 percent per year versus 1.8 percent in the economy as a whole.
- Since 1993, the productivity gap has widened with productivity in manufacturing growing at 3.9 percent per annum, almost three times as fast as the 1.4 percent pace for the economy as a whole.
- Within manufacturing, the annual pace of productivity growth has been far more rapid for durable than for nondurable manufacturing (3.4 percent per year versus 2.3 percent per year since 1960.)
- The share of manufacturing in total GDP has declined from 23 percent in 1977 to 17 percent in 1997. Manufactured goods account for a dwindling percentage of the spending of American households. As income rises, people typically spend an increasing fraction on health, education and other services. This long-term trend is apparent in other countries as well. Services are rising in importance in both developing and emerging market countries.

Studies suggest that foreign trade is not primarily responsible for the long-term decline in manufacturing employment, although the Asian crisis has played a role in manufacturing's recent performance.

- Calculations by Robert Lawrence and others suggest that if the entire trade deficit after 1975 had been eliminated through extra production of U.S. manufactured goods, manufacturing payrolls in 1994 would have been only 8 percent higher; manufacturing's share of total employment would have fallen by 14 rather than 15 percentage points.
- The U.S. is a net importer of manufactured goods and net imports have risen, but net imports have not increased enough to explain the decline in manufacturing employment.
 - Although manufacturing imports have risen, substantially in some sectors, exports have also risen substantially.

- Within manufacturing, many sectors have seen strong export gains.

IV. Trade and Wages

Over the last 25 years, real wage growth has been slow and the gap between the wages of skilled and unskilled workers has widened.

- Real hourly compensation closely mirrors the behavior of labor productivity. Between 1959 and 1973, productivity and hourly compensation both grew in excess of 2.5 percent annually. Since 1973, annual real compensation, properly measured, and productivity have both grown at about 1 percent. The post 1973 productivity slowdown is the main reason for slower growth in labor compensation.
- Since the 1970's earnings inequality (including the gap between the wages of skilled and unskilled workers) has risen substantially.
 - Between 1973 and 1993 the median hourly wages of men aged 20-64 with high school but no college actually fell 12 percent in real terms; the hourly wages of women fell 3 percent in real terms. Since 1993, there has been a modest improvement with the median hourly wages of men, aged 20-64, up 2 percent and those of women up 3 percent.
- It is not possible to pinpoint precisely the causes for the widening skill gap, but a large body of research attributes most to broad-based technological change that is biased in favor of skilled workers. Such inequality is evident in all sectors, not just in manufacturing. In today's increasingly high-tech economy, the payoff to skill and the ability to use computers has risen. That is one reason that the Administration's emphasis on education and lifelong skills upgrading is so critical.
 - The reduced demand for unskilled labor is broad based and has occurred throughout the economy. The utilization of unskilled (less than high school diploma) workers declined by even more in sectors sheltered from trade, including construction and retail trade, than in sectors exposed to trade (66 percent decline versus 59 percent decline.)
- About a fifth of the decline in real wages may be due to factors such as decreased unionization and the decline in the real value of the minimum wage. However, inequality has increased among groups of workers such as college graduates who are unlikely to belong to unions.
 - Unions have long provided wage premiums to less skilled workers. Studies suggest that, other factors equal, working in a unionized firm raises a worker's earnings by 10 to 15 percent.
 - During much of the 1980s, compensation grew more slowly in the unionized

sector than in the rest of the economy but more recently, the trends have been similar in both sectors.

- The share of employed workers belonging to unions has eroded from a peak of roughly 30 percent through much of the 1950s and 1960s to about 14 percent in 1996, a natural consequence of the rising employment share in less-unionized sectors (services), regions (the South), and demographic groups (women).

Most estimates find that international trade accounts for only between 10 and 15 percent of the increase in earnings inequality.

- This might understate the role of globalization, in that there is an interactive effect between the two factors: it is possible that education and technology would not be as important as they are if the U.S. were closed off from the rest of the world.
- But Americans on average would have lower real incomes in the absence of increased trade. Technological innovation and skills are our international comparative advantage; and international competition keeps industries like autos on their toes, which is one reason why Detroit produces better cars today than they did in the 1970s.

The wage gap may have stopped widening.

- 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 current economic expansion has progressed so far that even unskilled workers are in high demand. Over the last two years, the demand for less skilled workers as well as their wages have risen rapidly.

V. Thinking about international trade

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

- Roughly a quarter of U.S. growth since 1993 represents the contribution of exports, and this includes the period since mid-1997 when exports have been hard hit by the Asian crisis.
 - The Commerce Department estimates that each \$1 million of exports supports about 13 jobs, so 1998's \$959 billion of exports supported about 12.5 million 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 assume that without the increase in the trade deficit, the U.S. economy would have grown much more rapidly than it actually did.

- For the last year or more the economy has been operating at “full employment.” Although the Asian crisis diminished demand for manufactured goods, interest rates also declined as a consequence of the crisis leading to offsetting increases in employment in other sectors, particularly housing and services.
- Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.
- A country’s current account deficit equals the difference between its investment and saving. During the 1990s, national investment and national saving have both increased but investment increased faster, attracting foreign capital to the United States, resulting in a strong dollar and growing current account deficits. In the 1980s, growing current account deficits were the consequence of weak national investment and even weaker saving. Trade deficits due to an investment boom are less of concern because investment generates the payoff needed to finance foreign borrowing.
- If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us. Erecting new barriers to imports would suppress imports but also end up depressing our own exports and curtailing job opportunities for Americans in high-paying export industries.
 - 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, those countries 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 U.S. 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 and imports are high and rising (as opposed to the difference between them) together is more conducive to worldwide growth and income gains.
 - Both theoretical and empirical research shows that countries that are highly open to trade have higher income levels and growth rates. The benefits from openness result from deploying domestic workers in industries where they are relatively most productive, purchasing imported intermediate and final goods at lower costs than they could be produced domestically; in addition, trade increases competition resulting in more rapid innovation and expanded consumer choice.
 - According to one statistical estimate, every one-percentage-point increase in openness (controlling for such important determinants as investment and education) raises income by .34 per cent. U.S. 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 percent.

- Export jobs are good jobs. Workers in export-oriented firms earn 13-18 percent more than other workers according to Commerce Dept. and other estimates. Even after adjusting for various worker characteristics, workers in export-oriented firms earn more than others (5 percent more within the category of skilled workers, 7 percent more within unskilled workers). And foreign trade barriers are often highest in the industries where America leads the world—agriculture, financial services, pharmaceuticals, aircraft and telecommunications.
- 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 U.S. imports come from trade partners that have wages at least 90 percent of the U.S. level. And more than one-third of U.S. foreign direct investment in manufacturing facilities went to countries with labor costs above the U.S. level. Often they have more rigorous labor standards as well.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 10:41:33.00

SUBJECT: OECD study on climate change

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

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

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

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

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

TEXT:

State Dept has informed us that the OECD will be releasing a new study on the economic costs of Kyoto this week. In this study, the OECD apparently evaluated the costs to countries of complying with Kyoto targets, with and without flexibility mechanisms (i.e., international trading). The two key conclusions are (from Nigel Purvis, Frank Loy's special assistant):

- 1) cost of compliance with Kyoto: US 0.5% of GDP, EU 1.0% of GDP
(I believe this is without trading, but I have not confirmed that yet)
- 2) EU benefits more from trading than the US

Thorvald Moe will be in Washington on 2/25 and 2/26, and Loy has requested a briefing on this study. We are invited to this briefing, although I was told that we could also arrange for our own briefing. I will be out next week (in balmy Kazakstan), but let me know if you are interested in attending Loy's briefing or scheduling our own, and I will coordinate with Nigel. Also, once the report is released, we will obtain a copy.

Joe

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 12:01:05.00

SUBJECT: output growth

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

My quick calculation suggests that, under assumption 1, GDP would increase by 6.3%, NDP by 4%, and foreign investment income by 1.6%, for an increase in national income of 5-1/2%.

We'll see whether this is consistent with more careful calculations that you're doing or that I'll do later.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:17-FEB-1999 13:57:12.00

SUBJECT: Manufacturing memo

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

READ:UNKNOWN

TEXT:

Janet,

My apologies if there was confusion about the manufacturing memo, especially since so much work fell on you at the last minute. I would love to see the final product, if there are copies around.

Like I said, I should have acted sooner and asked Jeff to clarify the project and the timeframe. FYI, below are his two messages to me about the memo:

(From Monday:)

Jeffrey A. Frankel

02/15/99 04:39:23 PM

Record Type: Record

To: Bert I. Huang/CEA/EOP

cc:

Subject: points on manuf. and trade

Bert,

Have you made progress filling in the blanks in the memo titled "talking points on the roles of manuf. and trade in the US economy"?

Janet is likely to ask on Tuesday, because the deadline is imminent.

JF

(And the original request, with the draft that you saw)

Jeffrey A. Frankel

02/02/99 11:02:13 AM

Record Type: Record

To: Bert I. Huang/CEA/EOP

cc: BLANK_R @ A1 @ CD @ VAXGTWY, Janet L. Yellen/CEA/EOP, Michele

Jolin/CEA/EOP

Subject: memo to WH on Manuf. and Trade

Bert,

Here is the draft I mentioned to you. (It includes Becky revisions, plus some.) These are not talking points as such, but could be viewed as a draft of CEA input into what would be talking points for a n upcoming White House (Podesta/Tramantano...) meeting with labor leaders.

Please start filling in blanks when you get a chance. Feel free to enlist the services of others.

You should look it over now, in case anything here is of use when you transmit the auto stuff to WH for the mtg. with the machinists union.

JF

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

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D27]MAIL43192415Y.036 to ASCII,

The following is a HEX DUMP:

Key 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 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.)

- 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 since January 1993 has contributed 1/4 of US growth (1993-98). (The ratio was larger before the East Asia crisis hit in mid-1997.)
 - 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 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:17-FEB-1999 09:41:16.00

SUBJECT: Matt McBrady's trip

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:

Peter Scher at USTR, who is leading the banana delegation to Switzerland, says that they really need Matt to go to Switzerland for the negotiations but they don't have the funds to pay for him. He said that "Charlene would be happy to call Janet" to talk about why it is so critical that Matt take part in this trip. So, bottom line is: they want him to go but they are pushing us to pay.

The trip is going to be a Friday through Tuesday -- and will cost about \$2,800 (flight, hotel, per diem). Cathy says that we have money to pay for this -- factoring in all the trips to the OECD and various other travel. Janet, how do you want to deal with this?

Thanks

Michele

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-FEB-1999 14:46:18.00

SUBJECT: consensus on growth targets

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

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

TEXT:
FYI

----- Forwarded by Jeffrey A. Frankel/CEA/EOP on 02/18/99
02:45 PM -----

Jeffrey A. Frankel
02/18/99 02:42:52 PM
Record Type: Record

To: David B Sandalow/CEQ/EOP
cc: Joseph E. Aldy/CEA/EOP
Subject: consensus on growth targets

David,

Here is the one-page summary (plus worked-out example for Argentina), regarding what seems to me to be the consensus in the Asst.Secy.s group regarding LDC targets.

I hope I haven't overstated the degree of support for CEA's ideas on this subject. The rest of the group should certainly be given a chance to read my summary and see if they agree that it is a fair characterization of the views of the group. Will you circulate it for that purpose (or should I)?

JF

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D76]MAIL44590135U.036 to ASCII,
The following is a HEX DUMP:

How should growth targets for developing countries be set?

Summary of tentative consensus

This is an attempt to summarize some ideas that have received favorable inter-agency consideration, regarding how to formulate growth targets for developing countries (in the first budget period). It must be stated from the outset that nobody wants the USG to be aggressive in making this sort of proposal internationally, for fear of appearing to be trying to impose a rigid formula on others. Rather, the point is to collect our thoughts internally, to be used if we are asked, as appropriate.

There appears to be a consensus among the Assistant Secretaries group that the aim should be targets in a range where they are low enough to produce environmental advantages (including forestalling leaking, but perhaps also small cuts relative to BAU), while high enough to produce economic advantages (in the form of gains from trade to both buyers and sellers). That happy range is bounded by BAU on the upside and the “indifference level” on the downside (estimated, e.g., at BAU-12% for China, with one model). CEA results that extrapolate from the progressive pattern of existing targets observed among Annex B countries might help choose a “fair” point within that range (estimated at -5% for China).

There also appears to be a consensus in favor of considering “indexation” arrangements to cope with uncertainty between now and the budget period, i.e., to reduce the chance that a numerical target that was thought ex ante to be in the middle of the range turns out ex post to be either inadvertently stringent (imposing large economic costs) or inadvertently lax (creating hot air).

There is now a consensus that indexation is preferable to trying to impose a common absolute emissions/GDP standard across countries.

A majority favors a formula that turns into a numerical target in 2007, though EPA (David Doniger) favors continuing the indexation through the end of the budget period (2012).

All favor considering the idea of indexing the emissions target to GDP. There were a fair number of proposals for other variables to include in the formula in addition to GDP (population, temperature, coal production, oil prices, electricity output), either uniformly across countries or on a country-by-country basis. Some argued that it should be left to the discretion of the developing country to decide what economic and/or demographic variables best explain emissions. But each individual candidate for a variable to be added was strongly opposed by a number of people and arguments.

The most unsettled question was what X should be, in the formula to allow X% higher emissions for every 1% in unexpected growth.

There was also a proposal (Victoria Greenfield, State), that unexpected reductions in income be accorded Y% lower emissions, with $Y < X$.

Worked-out Example for Argentina

Step 1 -- setting expected target: BAU is for carbon emissions growth of 55% cumulatively from 1995 to 2010, or 3% per year (all data are from Argentine Government). Of this, 4.4% per year is GDP growth, -0.8% is decreasing energy/GDP, and -0.6% is decreasing emissions/energy. We could ask all LDCs to take targets that are expected to be 5% below BAU. For Argentina, the expected 2010 target would then be 50% above 1995 levels. An alternative, which might appeal to many countries, would be to let them pick their highest previous year, and set the target 50% above that.

Step 2: -- indexation to mitigate uncertainty: The forecast is for 2007 GDP to be 67% above 1995 (1.044 to the 12th power). If 2007 GDP in fact turns out to be that level, then the target is as agreed. But for every 1% higher (or lower) that 2007 GDP comes in, the target for 2008-2012 will be X% higher (or lower).

But the best way to phrase to Argentina this (exact same) contract is as follows: its target will be given by $[1995 + 55\% - 5\% - X(4.4\%)15] + [X(\text{average realized growth})15]$. This way of phrasing it makes clear that it is a "growth target", and makes the proposal sound like the country can only win, and not lose, from indexation.

For example, the implication of a tentative CEA calculation would be to set X at .7. (This is calculated as a statistical estimate of the average effect of growth on BAU, .9, minus an allowance for progressivity whereby richer countries are asked to make larger cuts, .2. But it is true that a more accurate forecast might use different coefficients for different kinds of countries.

An alternative favored by some in our group would be to let X be negotiated separately for each country.)

Then, for concreteness, the Argentine target becomes:

$$[1995 + 50\% - .7(4.4\%)15] + [.7(\text{average realized growth})15]$$

$$= 1995 \text{ level} + 4\% + .7(\text{accumulated growth over next 15 years}).$$

Notice that if growth comes in as expected (4.4%), then the target is 50% above 1995 levels, or 5% below BAU.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-FEB-1999 09:53:23.00

SUBJECT: Question from Corky

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Corky has been asked by a House Subcommittee to testify about research she did before coming to the CEA (see e-mail below) My instinct is that this is a bad idea. I think it sets a bad precedent. As far as I know, this has not come up in the past. But, I think in general it is best to reserve testifying to the Chair and Members. Corky's research may be fine and consistent w/ Administration policy. But I can imagine instances in the future where that would not be true and that could create an uncomfortable conflict. Please let me know what you think.

Thanks

Michele

----- Forwarded by Michele Jolin/CEA/EOP on 02/19/99

09:49 AM -----

Cordelia W. Reimers

02/18/99 02:19:49 PM

Record Type: Record

To: Michele Jolin/CEA/EOP

cc:

Subject: HR Subcomm on Immigration

Bill Griffith, the man I called you about this morning, is on the staff of the House Subcomm on Immigration. They are holding a hearing March 11 on the effects of low-skilled immigration on low-skilled native workers, particularly African Americans. He had seen my chapter on this topic in a book that was published last spring, and he wants to know whether I would be available to testify about my research (not about policy options) at the hearing. I told him I would ask you and get back to him.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-FEB-1999 12:31:58.00

SUBJECT: agency debt

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

According to the latest Federal Reserve Bulletin, total debt outstanding as of September 1998 was:

federal agencies: \$27 billion (almost entirely from the Tennessee Valley Authority)

federally sponsored agencies: \$1.1 trillion (big pieces from the Federal Home Loan Banks, Freddie Mac, and Fannie Mae, with smaller bits from Farm Credit Banks, Sallie Mae and the Resolution Funding Corporation)

The budget explains that "government-sponsored enterprises, such as Fannie Mae, ... are excluded from the budget on the grounds that they are privately owned and controlled."

So the term "federally sponsored agencies" includes GSEs, which means that there are substantial amounts of bonds to purchase. And the Fed/Treasury memo from 1997 says that the Fed is currently allowed to buy these securities. (This surprises me, because the memo also says that the Fed can only buy "direct obligations of the U.S. or debt fully guaranteed by the U.S., bills of exchange, and bankers' acceptances," and I didn't think GSEs fit that description. The det is not included in OMB's federal balance sheet, and its yield systematically exceeds the Treasury yield by a small amount.)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-FEB-1999 10:46:46.00

SUBJECT: double-counting

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Janet:

Although we all agree that using the unified surpluses for tax cuts or individual accounts does essentially the same double-counting as the Administration's proposal, I think there are two senses in which ours is worse (as Larry seemed to be suggesting yesterday afternoon):

1. On a perceptual level, putting the off-budget surplus into Social Security clearly **sounds** -- to many people -- more like double-counting than other uses of those funds. I think that Gene himself has made that point previously: we're getting hammered for something that is really quite traditional but appears worse. (The fact that the transfers almost exactly equal the baseline off-budget surplus hasn't helped.) And it's not just "opponents" who think that -- we've had many conversations with "friendly" outside economists who have to be slowly talked around to the Administration's position.

2. On a substantive level, individual account proposals clearly prevent triple-counting, which our clever scoring rules may or may not.

Doug

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan Blinder <blinder@arundel.Princeton.EDU> (Alan Blinder <blinder@arundel.Princeton.EDU> [UNKNOWN])

CREATION DATE/TIME:22-FEB-1999 18:49:36.00

SUBJECT: testimony

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

TEXT:

Here is my attempt to email the testimony (without the three charts).

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:22-FEB-1999 09:20:58.00

SUBJECT: OECD Sustainable Development Meeting

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

READ:UNKNOWN

TEXT:

Attached are two documents that will be discussed at the OECD meeting next weekend on sustainable development. It would be helpful if you could have a look at them, particularly the document on climate change, and let me know any reactions you might have on the OECD's workplan. =====

ATTACHMENT 1

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D26]MAIL42418655X.036 to ASCII,
The following is a HEX DUMP:

CLIMATE CHANGE POLICIES

OECD Round Table on Sustainable Development

Washington D.C., 28 February - 1 March 1999

Issues Paper

I. Introduction

1. The OECD Secretariat has recently prepared analytical papers on climate change for some of its subsidiary bodies (Working Party 1 of the Economic Policy Committee, and the Environmental Policy Committee). This Issues Paper draws on these papers to highlight some issues for informal discussion on a personal basis. With the Kyoto Protocol leaving many questions open, OECD work has aimed to: *i*) quantify the effects of different implementation strategies, drawing on results from a range of models (including the OECD's world General Equilibrium Model, GREEN); and *ii*) assess progress by countries in implementing mitigation strategies under the Convention. Members of the Round Table are invited to provide guidance on further OECD work, notably for COP5; and to highlight other relevant work on climate change policies.

II. Moving ahead with the design of the mechanisms of the Protocol

2. While the Kyoto Protocol represents an historic step in countries' efforts to limit climate change, many of its provisions need further interpretation before they can be implemented. A timetable for reaching agreement on these elements, agreed at the Fourth Meeting of the Conference of the Parties in Buenos Aires, foresees that remaining issues will be completed by late 2000 (COP6). The nature of the solution to these issues will determine how the Protocol will be implemented.

3. Among the issues on which solutions have not yet been reached are the following:

- *Monitoring and verification.* Emissions are measured with uncertainty, with the range of uncertainty varying by country, by gas and by source. It is low for CO₂ from fossil fuel combustion, and high for CO₂ from other sources (including sinks) and for non-CO₂ gases.
- *Mechanisms for ensuring compliance.* While national laws provide an array of enforcement options, international mechanisms to ensure compliance are narrower in scope. Yet, credible sanctions may be required to ensure compliance. The best approach to compliance raises a number of difficult issues for negotiators, including the type of liability regime.
- *Buyer or issuer liability.* The economic efficiency of trading and the size of the trading market will depend *inter alia* on whether the liability for non-compliance with national

targets lies with the issuer or the buyer of permits. While issuer liability may raise the efficiency of trading, it may require sanctions to penalise non-compliance.

- *Entity trading.* While not explicitly foreseen by the Protocol, countries may develop domestic trading by allocating quota permits to domestic entities. Given the link between prices on international and domestic markets, this could increase the efficiency of trading (by raising the number of participants, and decentralising decisions), but raises several implementation issues.

4. Members of the Round table may address some of the following questions:

- Which of these elements are likely to prove most important in shaping the success of the agreement? Which issues are likely to prove more divisive among Parties to the Protocol?
- How can OECD research and analysis best assist countries in making progress in achieving costs-effective solutions to these issues?

III. Economic implications of the Kyoto Agreement

5. One important objective of OECD work has been to compare the economic costs of the Protocol when countries implement their emission targets through domestic action (with a uniform tax) -- referred to as the “no-flexibility” case -- relative to when they make use of the various “flexibility mechanisms”.

6. Costs of reducing CO₂ emissions may be expressed in terms of the price (marginal costs) of carbon required to meet targets. An OECD review from a range of models shows that these marginal costs are likely to be rather high if countries have to meet their target individually, possibly ranging between \$150 to \$300 per ton of carbon¹, with higher abatement costs in the European Union, Japan and the rest of the OECD region than in the United States (see Annex Table). Carbon taxes of this magnitude may generate substantial increases in energy prices²; falls in energy production and in competitiveness for energy-intensive industries in OECD countries; and large real income falls among oil-exporting countries. Estimates of the impacts on GDP and real incomes in OECD countries mostly fall in the ½ - 1 per cent range, without taking into account any transition costs and assuming that policy adjustment will be gradual and started soon.

7. Relative to these estimates, savings -- in the form of lower costs of implementation -- allowed by the use of “flexibility mechanisms” are typically large. Estimates of the economic effects of so-called “where” flexibility among Annex I countries -- emission trading (ET) and joint implementation (JI) -- suggest a reduction of marginal costs to OECD countries by around one half, with most of this gain reflecting a concentration of abatement efforts in countries where these are less costly. Part of the savings allowed by “where” flexibility would reflect trading in so-called ‘hot air’, e.g. the possibility that some Annex I countries (notably Russia and Ukraine) might meet the Kyoto targets without any action and sell their surplus emission allowance to other countries. While predictions on the size of ‘hot air’ are uncertain, the present economic outlook for countries in the former Soviet Union suggests that this may be

1. As compared to an international oil price -- in terms of carbon equivalent -- of \$150 per ton in 1995.
2. An increase of the average price consumers pay for energy services and transport of around 50 per cent.

substantial³. With reference to other forms of flexibility (“what” and “when”), while it is more difficult to quantify their effects, the potential for savings are also significant.

8. While the unlimited use of these “flexibility” mechanisms would significantly lower the costs of abatement efforts, it also raises concerns which have encouraged some countries to favour limits to trade. In addition to the “political” concern of eliciting more countries to participate to global abatement efforts, other concerns include measurement issues (while not specific to trading, measurement errors in one countries would affect abatement efforts in others); implementation issues; and problems associated to the possibility of monopolistic behaviour on the trading market⁴. Various departures from full “where” flexibility would in general result in divergence between marginal abatement costs among countries, reducing the global benefits accruing from trade. Also, the adoption of unilateral restrictions on the purchase of emission permits by some countries would increase their costs for meeting obligations, to the advantage of other countries who opt for unlimited trading. On the other hand, imposing limits to the trading of “hot air” would be ineffective as the Protocol allows countries to carry over unused permits to future commitment periods.

9. Discussion may address some of the following questions:

- Are there any economic reasons for limiting the extent of trading among Parties to the Protocol?
- Which type of limitation -- if any -- may allow to reconcile the efficiency-benefits of trading with arguments that all countries take some actions at home?
- How can OECD work on these issues be most useful as background for negotiators?

IV. Moving Beyond Kyoto

10. Achieving the Kyoto targets is a first step towards the long-term goals of stabilising GHG concentrations. OECD model simulations extending Kyoto commitments to 2050 suggest that aggregate costs of these commitments would be considerably higher than in the first commitment period⁵; also, that trading among Annex I countries becomes less important in reducing these costs, as the emergence of alternative energy sources (“backstop technologies”) in Annex I countries may narrow the range of abatement costs and the scope for efficiency gains.

11. This extension of the Kyoto targets, moreover, would not be sufficient to achieve the long-term objective of stabilising concentrations of GHG gases over the coming centuries. To stabilise concentration, significant participation by major emitters from the non-Annex I group is necessary. This raises questions on the requirements needed to obtain global participation, and on the effects of different rules for allocating emission allowances on the incentives to participate.

3. OECD preliminary scenarios imply an estimate of the phenomenon of ‘hot air’ of over 130 million tonnes of carbon per year (some 14 per cent of the combined Russia and Ukraine annual target for the 2008-12 period).
4. This is associated to the likelihood that Russia and Ukraine emerge as the dominant suppliers in the market for emission permits, also reflecting ‘hot air’. In this situation, suppliers would have incentives to sell fewer permits at a higher price than under perfect competition.
5. From around 0.5 per cent of annual GDP to around 1 per cent in the case of no emission trading.

12. Incentives for non-Annex I countries to participate in future agreements may be created by a gradual move towards an egalitarian allocation of emission allowances, based e.g. on equal per capita emissions. Emission trading is crucial for keeping costs down under such an allocation scheme, given the large expected differences in abatement costs across countries. But even under full trading, global costs could be substantial if emissions are to be brought down to levels consistent with stabilisation of atmospheric GHG concentrations. Moreover, an egalitarian allocation of allowances may not be sufficient to induce participation by all non-Annex I countries, implying that direct transfers may be required to compensate some countries to participate in abatement. However, the incentives required for non-Annex I countries to participate in a global agreement also depend on the benefits they expect to reap both from lower GHG concentrations and from local, ancillary benefits of abatement efforts.

13. Discussion may address some of the following questions:

- Which type of burden sharing may offer the best opportunities for eliciting non-Annex I countries to take up commitment in terms of emissions reductions?
- How should OECD and its affiliates, in co-operation with other institutions, pursue work and enhance the dialogue with non Annex I countries on these issues?

V. Assisting OECD countries in establishing domestic frameworks conducive to cost-effective mitigation?

14. A review of countries experiences in domestic mitigation policies highlights a variety of approaches being pursued, but also some common features. Measures have generally aimed at multiple objectives, rather than climate change alone, and mainly targeted CO₂ emissions from energy⁶. Due to their fragmented nature, these measures have had only limited influence on emission trends; at the same time, the deregulation of energy markets, by lowering energy prices, may have raised energy consumption and CO₂ emissions. In some countries, carbon and energy taxes have delivered promising results despite pervasive exemptions and low tax rates⁷. While environmental taxes share a number of desirable features (easy administration, certainty of the tax base, efficient taxes with the possibility to offset distortive taxes elsewhere), they also raise issues (trade implications, distributive impacts, uncertainty of its environmental outcomes) that in practice have limited their use.

15. While there is no single formula, a cost-effective domestic mitigation strategy across sectors may include a number of features. First, global reforms aimed at phasing out harmful subsidies and other measures leading to higher emissions of greenhouse gases (“foundation policies”). Second, coherent sectoral strategies (for example, policies to curb emissions from transport through changes in behaviour and technology). Third, the use of policy instruments to take into account the externalities of greenhouse gases (“full cost pricing”). While calling for greater use of economic instruments, this will need to be complemented by integrated packages of interventions to overcome market imperfections (e.g. information barriers, access to capital) and to increase research and institutional capacity. Finally, the assessment of the costs of domestic interventions should consider all ancillary benefits from reducing GHG emissions (such as improving human health, protecting natural resources, raising energy and environmental security).

6. Domestic measures have included subsidy reforms in agriculture and energy, voluntary agreements in transport and industry, improvements in vehicle efficiency, fiscal incentives and CO₂ taxes.

7. Five OECD countries have carbon and or energy taxes to deal with climate change. According to some national studies, these may have reduced CO₂ emissions by 9 per cent in Sweden; and by 3 to 4 per cent for households in Norway.

16. Members of the Round Table may address some of the following questions:

- What role might green taxes play in domestic mitigation strategies?
- How can OECD countries co-operate in advancing domestic strategies and demonstrate leadership? Is slow progress on the domestic front hampering the extension of participation to a larger number of countries?
- Are OECD governments considering the wide range of ancillary benefits in the design of their domestic strategies?
- Can “best practices” for domestic mitigation in OECD countries be established? In which other areas, can international co-operation enhance the scope and pace of domestic action?

VI. Adapting to Climate Change

17. Stabilising concentrations of greenhouse gases will call for a major effort from the international community. Further, most projections imply that even if concentration levels stabilise relatively early, climate change will continue for some time. This raises questions as to the likely nature of the impact of climate change in the various parts of the world, and of the strategy for adapting to these changes. Answers to these questions are essential if estimates of the economic costs of abatement efforts are to be compared to the benefits accruing from avoiding (or minimising) climate change.

18. Consensus views on the regional impacts of these changes, based on assumptions of a doubling of CO₂ concentrations by the second half of next century (with projected increases in a range of 1.5 to 4°C in temperature, and in 0.2 to 1 meter in sea-level) point to a variety of effects, and different risks for the various regions and sectors in terms of seasonal temperature changes, precipitation patterns, agricultural productivity, change in land patterns, vulnerability to coastal flooding, soil erosion, population movements and human health.

19. Experience in some OECD countries in adapting to sea-level rise point to a variety of strategies being pursued, ranging from full protection of existing activities, followed by abrupt adaptation at a later stage; a planned retreat of existing activity; and one where abandonment and modifications are planned in advance. Choices among these alternative strategies are a function, *inter alia*, of sector- and area-specific characteristics, asset lives, and information of the meteorological effects of climate change. The challenge of adapting to climate change is likely to be especially pressing for non-OECD countries.

20. Discussion may address some of the following questions:

- What is the balance between policy-interventions and market forces in handling adaptation strategies? In which areas, are changes in policy settings and instruments most needed?
- Should countries develop models with a higher degree of geographical resolutions to derive more detailed impact assessments?

Annex Table. Marginal abatement costs, without and with emission trading, according to different models

	without trade	with trade
<u>United States</u>		
WorldScan ⁽¹⁾	41	18
GREEN	231	90
G-Cubed ⁽²⁾	63	37
EMF16 ⁽³⁾	140 - 340	21-160
Merge ⁽⁴⁾	274	113
AIM ⁽⁷⁾	166	67
GTEM ⁽¹⁰⁾	369	122
<u>Western Europe</u>		
WorldScan ⁽¹⁾	83	18
GREEN	189	90
G-Cubed ⁽²⁾	167	37
AIM ⁽⁷⁾	252	67
GTEM ⁽¹⁰⁾	762	122
<u>Japan</u>		
WorldScan ⁽¹⁾	93	18
GREEN	182	90
G-Cubed ⁽²⁾	252	37
AIM ⁽⁷⁾	253	67
GTEM ⁽¹⁰⁾	739	122

(1) Bollen, Gielen and Timmer in OECD (1998)

(2) McKibbin, Shackleton and Wilcoxon, in OECD (1998), p.71.

(3) Figures quoted by J. Edmonds reporting on the results of the EMF16.

(4) Manne and Richels, in OECD (1998), p.19.

(7) Kainuma, Matsuoka and Morita in OECD (1998), p.167

(10) Tulpulé et al., in OECD (1998).

Source: OECD (1998), Economic Modelling of Climate Change, Workshop Report, 17-18 September 1998. This report was also presented at COP4.

THE OECD REPORT TO MINISTERS ON SUSTAINABLE DEVELOPMENT IN 2001. A PRELIMINARY OUTLINE

1. The three year horizontal project should lead to three types of documents:
 - a **Policy Report** to Ministers, to be prepared by an *ad-hoc* drafting team beginning its work in the second half of 2000 (maximum length of 50 pages). It will draw, in a flexible way, on other documents (see below). This is the key document for the Ministerial;
 - an **Analytical Report** to Ministers, with inputs prepared by directorates (maximum length 300 pages). All elements of this analytical report should be available at least in advance draft form by end-2000. A preliminary Table of Contents of this Analytical Report is given below;
 - a series of self-contained **Background Reports**. As an example: a Report on Climate Change Policies is planned for release at COP5. Other background Reports could be prepared as documentation for conferences and proceedings. Other examples: the December 1999 Conference in Rome on Indicators, and the June 1999 Ministerial Meeting of Committee on Science and Technology Policy could lead to publications on, respectively, Measurement and Technology and Sustainable Development.

A tentative outline of the Analytical Report

A. Policy Framework for Sustainable Development

1. Key Dimensions of Sustainable Development
2. Measurement (Indicators)
3. Institutions and Decision Making
4. Getting Prices Right
5. Technology and Sustainable Development
6. An Overview of Policies to Enhance Sustainable Development in Member Countries

B. The Sustainable Management of Natural Resources

7. Natural Resources

C. Addressing Climate Change

8. Climate Change Policies

D. Sectoral Policies

9. Energy
10. Transport
11. Agriculture

E. Globalisation and Sustainable Development

12. Trade, Investment and Sustainable Development
13. Strategies for Enhancing Sustainable Development in Developing and non-member countries

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-FEB-1999 09:54:43.00

SUBJECT: paying off debt

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

At a recent meeting, Gary Gensler pointed out that -- under current projections of the President's plan -- waning federal debt will be noticeable well before the 2018 date that we all have in mind.

The Federal Reserve now holds about \$500 b of this debt, and that amount is likely to grow to about \$1 trillion over the next 10 or 15 years.

Also, nonmarketable debt (state and local govt series, savings bonds) is around \$350 b now and will continue to grow. Thus, marketable debt available to private investors would be gone by about 2010 under current projections of the President's plan.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Francoise.MICHELSON@oecd.org (Francoise.MICHELSON@oecd.org [UNKNOWN])

CREATION DATE/TIME:24-FEB-1999 07:17:27.00

SUBJECT: 2nd OECD Round Table on SD - 28 Feb-1 March 1999 Washington, D.C.

TO: Joke.WALLER-HUNTER@oecd.org (Joke.WALLER-HUNTER@oecd.org [UNKNOWN])
READ:UNKNOWN

TO: Eimear.CANTWELL@oecd.org (Eimear.CANTWELL@oecd.org [UNKNOWN])
READ:UNKNOWN

TO: Gabriella.GOEKJIAN@oecd.org (Gabriella.GOEKJIAN@oecd.org [UNKNOWN])
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TO: RWATSON@worldbank.org (RWATSON@worldbank.org [UNKNOWN])
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TO: mzc@unfccc.de (mzc@unfccc.de [UNKNOWN])
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TO: John.FERRITER@iea.org (John.FERRITER@iea.org [UNKNOWN])
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TO: mem@mem.dk (mem@mem.dk [UNKNOWN])
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TO: ecfoster@web.net (ecfoster@web.net [UNKNOWN])
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TO: IJOHNSON@worldbank.org (IJOHNSON@worldbank.org [UNKNOWN])
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TO: James.Gustave.Speth@undp.org (James.Gustave.Speth@undp.org [UNKNOWN])
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TO: jranders@wwfnet.org (jranders@wwfnet.org [UNKNOWN])
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TO: patti@wri.org (patti@wri.org [UNKNOWN])
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TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP [CEA])
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TO: Gerhard.Omersu@bmu.gv.at (Gerhard.Omersu@bmu.gv.at [UNKNOWN])
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TO: Catherine.LANDEL-GUEUGNEAU@oecd.org (Catherine.LANDEL-GUEUGNEAU@oecd.org [UNKNOWN])
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TO: Donald.JOHNSTON@oecd.org (Donald.JOHNSTON@oecd.org [UNKNOWN])
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TO: MALEGRE@worldbank.org (MALEGRE@worldbank.org [UNKNOWN])
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TO: bobr@wri.org (bobr@wri.org [UNKNOWN])
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TO: Thorvald.MOE@oecd.org (Thorvald.MOE@oecd.org [UNKNOWN])
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TO: john.cuddy@unctad.org (john.cuddy@unctad.org [UNKNOWN])
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TO: rubens.ricupero@unctad.org (rubens.ricupero@unctad.org [UNKNOWN])
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TO: donnaw@wri.org (donnaw@wri.org [UNKNOWN])
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TO: jonathan@wri.org (jonathan@wri.org [OPD])
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TO: supton@arcadia.co.nz (supton@arcadia.co.nz [UNKNOWN])
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CC: Anne-Marie.FITZPATRICK@oecd.org (Anne-Marie.FITZPATRICK@oecd.org [UNKNOWN])
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CC: JDIXON@worldbank.org (JDIXON@worldbank.org [UNKNOWN])
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CC: EBERMUDEZ@worldbank.org (EBERMUDEZ@worldbank.org [UNKNOWN])
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CC: Marco.MIRA@oecd.org (Marco.MIRA@oecd.org [UNKNOWN])
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CC: Ignazio.VISCO@oecd.org (Ignazio.VISCO@oecd.org [UNKNOWN])
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CC: VDAVID@worldbank.org (VDAVID@worldbank.org [UNKNOWN])
READ:UNKNOWN

CC: mjonesswahn@worldbank.org (mjonesswahn@worldbank.org [UNKNOWN])
READ:UNKNOWN

TEXT:

You will find attached a revised matrix which includes information from UNEP and a correction from WBCSD.

Please note a change in the meeting room for the meeting of 1 March at the World Bank . It will now be held in Room MC9 - W150.

Also, it is important that you bring picture identification when you arrive at the World Bank.

<<MATRIX.DOC>>

- MATRIX.DOC===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D28]MAIL457855851.036 to ASCII,
The following is a HEX DUMP:

OVERVIEW OF ONGOING WORK ON SUSTAINABLE DEVELOPMENT

AGENCY: OECD

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Policies to internalise external costs and benefits ("getting prices right")	Data and methodologies for the appraisal of external effects Peer review of national policies for selected Member countries Role of taxation in achieving environmental objectives Subsidy reform	2000
Climate Change	Issues of clarification and implementation of Kyoto Protocol and Convention International issues and strategies Domestic strategies and policies Effects of achieving Kyoto targets Moving beyond Kyoto	2000
Sustainable Development of Natural Resources	Sustainable management of farmland and terrestrial ecosystem Sustainable management of fisheries and marine ecosystem Sustainable management of forests and terrestrial ecosystem Sustainable management of water and inland water ecosystem Sustainable management of fossil energy sources Sustainable development of uranium resources	2000
Technology and Sustainable Development	Role of technology in improving resource productivity and eco-efficiency Key technologies for achieving sustainable development Approaches to designing environmental policies to stimulate innovation in industry Approaches to designing technology policies to contribute to sustainable development goals Means for increasing public acceptance of, and demand, for clean technologies Diffusing technologies for sustainable development in developing countries	2000

[Automated Records Management System Hex-Dump Conversion]

AGENCY: OECD (continued)

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Indicators of Sustainable Development	Framework for Sustainable Development indicators Summary indicators of Sustainable Development (genuine savings, green GDP) Indicators of accumulation and depletion of different types of capital (man-made, natural resources, environmental, human capital) Sets of integrated indicators for different sectors of the economy Sets of integrated indicators for sub-national units and area typologies	2000
Engaging non-member countries in efforts towards Sustainable Development	Efforts underway in non-member countries to formulate and implement National Strategies for Sustainable Development Assisting non-member countries fulfil their obligations under the different Global Environmental Conventions Fostering cleaner production in developing countries Assisting non-member countries to establish framework conditions conducive to Sustainable Development Monitoring development progress through a working set of core indicators	2000

AGENCY: UNCTAD

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Policies to internalise external costs and benefits ("getting prices right")		2000
Climate Change	- Role of taxation in achieving environmental objectives - Subsidy reform	2000
Sustainable Development of Natural Resources	- Issues of clarification and implementation of Kyoto Protocol and Convention - International issues and strategies (related to emissions trading and CDM)	2000
Technology and Sustainable Development	- Sustainable management of mineral resources - Sustainable management of biodiversity resources (BIOTRADE) - Sustainable management of forestry resources	2000
Environmental Accounting	- Diffusing technologies for sustainable development in developing countries - Waste management (Basel Convention)	2000
Indicators of Sustainable Development	Issues related to environmental accounting by businesses	2000
Engaging developing countries in efforts towards Sustainable Development	Sets of integrated indicators for different sectors of the economy	2000
Trade and environment	- Assisting developing countries to establish framework conditions conducive to Sustainable Development "Win-win" strategies - Environmental management standards and international trade - Transborder environmental management - Trade impacts of environmental policies and agreements - Effects of the use of trade measures and positive measures in multilateral environmental agreements (MEAs) on the achievement of environmental objectives and on trade and competitiveness	2000

AGENCY: WORLD WIDE FUND FOR NATURE

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
Conservation of Biodiversity	- Field application of sustainable management in forest, freshwater, and marine ecosystems (hundreds of field projects)	On-going
	- Integration of conservation and development - projects with local communities and authorities (tens of field projects)	"
	- Developing sustainable livelihoods, including sustainable income sources for local communities (a few projects)	"
	- Identification of root causes of and sustainable solutions to ecological degradation in the Global 200 Ecoregions (tens of projects)	"
Institutional Frameworks to Achieve Conservation	- Development and application of certification systems in forestry, fisheries and tourism	2003
	- 'TRAFFIC' programme to monitor trade in endangered species	On-going
Reduction of Environmental Impact	- Access and benefit sharing of genetic resources	"
	- Mechanisms to reduce CO2 emissions	2001
	- Reduction of environmentally damaging subsidies	On-going
	- Mechanisms to increase the sustainability of trade, aid and investment	"
	- Impacts of structural adjustment on national economies and the natural environment	"
	- Sustainable management methods for forests and fisheries	"
Increased Sustainability at National Level	- People and Conservation - capacity building, environmental education, defence of indigenous people's rights	On-going
	- Macroeconomics for Sustainable Development	"
Indicators	- Development of indicators of biodiversity loss	2000
	- Support to greening of national accounts	On-going

AGENCY: WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

RESEARCH AREA		MAIN ISSUES ADDRESSED	TIME FRAME
Understanding Sustainable Development (SD)		Scenario Work for industry sectors, geographical areas, building on the WBCSD Global Scenarios	
		• Energy	1999
		• Energy Policy	1999
		• Biotechnology	1999
		• Us (together with the PCSD)	1999
		Connect the Global Scenarios to subject areas that need to be addressed in each scenario	1999
<u>JAZZ</u>			
Sustainability through the Market		• Sustainable consumption • Innovation • Rights, roles, responsibilities • Dialogues in developing countries to get their perspective into our work	2000
Making Markets work		What does it take to make markets work in a way that promotes SD? Internalizing of environmental costs, in cooperation with IISD, Canada	2000
Innovation and Technology (I&T)		• Understanding the role of I&T in achieving SD • Promoting the role of I&T and educating stakeholders	2001
Trade and Environment		• Bring business input into the WTO • Educate business in developing countries and help bring their views into WTO	continuous
<u>GEOPOLITY</u>			
Climate and Energy		• Design of the Kyoto mechanisms, especially emissions trading in a broad sense • Credits for early action • Principles for measuring and reporting GHG emissions	2001 (COP-6)
Corporate Social Responsibility		• Define borderlines between different stakeholders (government, business, civil society) • Raise awareness within business • Dialogues in developing countries • Tools and guidelines on measuring and reporting	2000
<u>FROG</u>			
Eco-Efficiency		• Resource efficiency • Matrix and reporting for companies • Outreach programmes to "spread the message"	2000
Water		• "Partnerships in Practice", case studies on public/private partnerships • Water pricing, workshop in Buenos Aires	2000

[Automated Records Management System Hex-Dump Conversion]

[Automated Records Management System Hex-Dump Conversion]

AGENCY: WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (cont.)

RESEARCH AREA	MAIN ISSUES ADDRESSED	TIME FRAME
<u>CAPACITY BUILDING</u>		
Learning by Sharing	A cross cutting program to facilitate member experience sharing on how to implement SD in companies, both on the strategic level and in operations	2000
Education and Training	Build on the Sustainable Business Challenge for graduate students and create a WBCSD Virtual University on SD in partnership with amongst others Cambridge University	2000
Global Outreach	• Continue to develop our network of national BCSDs in developing countries and countries in transition • Local dialogues for capacity building and input into the WBCSD policy work	continuous

AGENCY: WORLD RESOURCES INSTITUTE

Research by Theme	Objectives	Ongoing Projects	Time Frame
Biological Resources	Develop scenarios and vision statements for sustainable biological resources management Reform agricultural forestry, and fishery practices to become biodiversity friendly Promote economic tools and institutional mechanisms to ensure vital ecosystem services Develop policies and institutional mechanisms to protect coastal ecosystems	Forest Frontiers Initiative Millennium Assessment of the State of the World's Ecosystems Linkages in the Landscape Agrobiodiversity and sustainable agriculture Southeast Asia Marine and Coral Reef Protection	1998 - 2000
Climate Protection	Accelerate developing countries' effectiveness in reducing the energy and carbon intensity of their development paths Accelerate the private sector's acceptance of climate as a real, management problem; promote private sector providing the solutions Contribute to the creation of innovative and effective treaty flexibility mechanisms, particularly emissions trading and the Clean Development Mechanism Develop and promote climate policies that will increase chances that ecosystems and the people they support can survive climate change.	Safe Climate Sound Business China Climate Leadership Energy Restructuring Megacities: Air pollution and Climate Change Developing Country Baselines	1998 - 2000

AGENCY: WORLD RESOURCES INSTITUTE(cont.)

Research by Theme	Objectives	Ongoing Projects	Time Frame
Development Paths	Promote environmental adjustment Innovate environmental governance mechanisms Pilot sustainable sector models Link ecological health to human welfare Engage international policy fora to ensure representation of environmental values and developing country perspectives.	Policy Research Capacity Initiative International Financial Flows and the Environment Resources Policy Support Initiative Outsourcing Environmental Accountability Environmental Governance in Central America Place-Based Forest Management Project	1998 - 2000
Sustainable Enterprise	To help industry leaders to formulate managerial and market approaches to sustainable development To build demand for products and services that respect nature To validate human and social investment as a business proposition To contribute to the formation of public policy that will shift industry to more sustainable forms of production and consumption To develop and validate the empirical basis for sustainable enterprise	BELL/LA-BELL SPLASH New Ventures Sustainable Forest Enterprise	1998 - 2000

ORGANIZATION: UNITED NATIONS ENVIRONMENT PROGRAMME (UNEP)¹

MAIN AREA	MAIN ISSUES ADDRESSED	TIME FRAME
1) Environmental information, assessment and research, including environmental emergency response capacity, and early warning	1.1. environmental assessment and reporting including global, regional and sub-regional, as well as sectoral/issue related assessments through building of international cooperative network(s), framework and process. 1.2. maintenance of systems and networks for data/information generation, analysis, observing and early warning (GRID and ENRIN). 1.3. promotion of science and research of key environmental issues (agro-genetic resources in mountain areas, agricultural biodiversity, environmental indicators) 1.4. improving access to environmental information and public participation in environmental decision making (INFOTERRA)	. Geo reports . Millenium World Resources Report (with WRI, UNDP, The World Bank) . 5 sectoral assessment by 2001 (Fresh water, marine, land, biodiversity, atmosphere) . 15 centres operating in GRID network during 2000/2001
2) Enhanced coordination of environmental conventions and development of environmental policy instruments.	2.1. building on the understanding of the linkages between them, support and coordinate the work of the environmental conventions and assist in their implementation (this includes the 17 regional and global conventions for which UNEP provides the secretariat, and the Desertification and Climate Change Conventions). 2.2. Support further development of international environmental law, in particular for chemicals related conventions (PICs and POPs). 2.3. capacity building, monitoring, compliance and enforcement of environmental law.	ongoing ongoing . PIC Convention enters into force with 50 countries ratifying by 2002. . POP Convention negotiated and signed by more than 50 governments by end 2001. on going

¹ In the context of globalization and liberalization, UNEP, as the world's environmental conscience and with the involvement of all relevant major actors, develops the capacity to bring together scientific evidence to identify future environmental challenges, and to catalyse responses to such challenges.

ORGANIZATION: UNITED NATIONS ENVIRONMENT PROGRAMME (UNEP, cont.)

MAIN AREA	MAIN ISSUES ADDRESSED	TIME FRAME
	2.4. - development of methodologies for valuation of environmental resources and environmental accounting - analyses of environmental implications of economic factors and instruments such as prices taxation and subsidies, and development of collaborative measures to correct market failures - support, together with other UN partners, the implementation of the Kyoto Protocol and the CDM. - improve the understanding of environmental impacts of world trade and trade liberalization, and of trade and economic implication of UNEP administered conventions.	- ongoing - full operation of network of UNEP/UNIDO National Cleaner Production Centres and related organizations by 2001.
3) Fresh water	3.1. Global International Water Assessment (GIWA) programme integrating socio-economic factors, and aiming at providing information to decision makers dealing with fresh water. 3.2. GEMS/Water programme to predict "hot spots" and for developing information systems to alert governments. 3.3. analyse the inter-linkages between fresh water and marine ecosystems, with the implementation of the Plan of Action for the Protection of the Marine Environment from Land Based Sources.	ongoing ongoing ongoing
4) Industry and technology transfer	4.1. fostering implementation of Cleaner and Safer Production approaches (as well as related approaches of eco-efficiency and green productivity) through awareness raising on policies and technologies, capacity building, technology transfer, and implementation of the international Cleaner Production Declaration. 4.2. - engaging industry in a global dialogue and further promotion of voluntary initiatives in a number of service industry sectors (financial institutions, insurance, tourism, telecommunications, and possibly water and advertising), and of environmental management practices in a number of manufacturing sectors (mining, oil, construction, SMEs). - promotion of corporate accountability through environmental and social reporting. 4.3. promotion of sustainable consumption (green procurement) 4.4. facilitating transfer of environmentally sound technologies (including transfer of tools such as environmental technology assessment).	ongoing ongoing ongoing ongoing
5) Africa	5.1. support particular capacity building on CDM, biosafety, desertification. 5.2. develop integrated impact assessment of Climate Change in Africa (including impact on desertification). 5.3. assist African countries to put in place early warning mechanisms in the field of fresh water resources.	2001

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:25-FEB-1999 16:49:16.00

SUBJECT: Follow-Up Labor Meeting

TO: Richard M. Samans (CN=Richard M. Samans/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Ron Klain (CN=Ron Klain/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

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

TO: Monica M. Dixon (CN=Monica M. Dixon/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

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

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

CC: Paul A. Tuchmann (CN=Paul A. Tuchmann/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

CC: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

john podesta (john podesta [WHO])
READ:UNKNOWN

TEXT:

I know I spoken briefly to each of you and said I would circulate a memo -- since I have not done that yet, I thought I would briefly update you on my thinking. I've also talked w/ Alexis Herman and Kitty Higgins. After the wonderful meeting john and i had in florida -- i thought 4 next steps would be appropriate.

1. Pull together the economists in the Administration and schedule a meeting w/ the economists in the labor community to have the "deindustrialization" of America discussion. They believe its as a result of trade -- I think we believe otherwise. I hope a thorough discussion of the issues, our areas of agreement and disagreement will be helpful. Janet has agreed to convene the meeting. If we could do this next week -- that would be great. We should have a pre-meeting to talk through the agenda/approach -- see previous e-mail

2. Pull together a policy meeting w/ labor community policy folks to answer the question: "What does it mean to include labor and

environmental rights" in traditional trading authority. Lael/Rick have agreed to this process -- I'd include policy folks from labor/commerce/ustr -- Gerry Shea would like to exclude labor legislative folks -- and is trying to come up w/ the appropriate policy folks -- I am pushing him for times next week.

3. Have an internal discussion/analysis on economic incentives we provide to industry and go through a process to determine whether -- where we have made the decision to provide economic incentives--we can condition those incentives on requiring capital and the means of production to remain in the united states -- (when the President spoke at the Steel workers, Machnists and Autoworkers Conference he spoke about his Sperling/Jackson initiative and they loved it because they heard it as jobs remaining in th eir communities) I don't know whether we can or if its good policy to condition incentives -- but I believe that if NEC could run a process to figure this out and we could talk about it as something we are looking at, it would be helpful

4. CEA, Labor, Commerce -- identify and analyze the growing sector of the economy to determine whether there are practical, economic, legal or other impediments to organizing workers in the growing sectors --- if there are, we should figure out whether there is legislative or other vehicles we could propose that may help to level the playing field. We would have to think this through very carefully, but we may be able to fashion an approach that puts us on the side of providing tools to workers in a changing economy and in growth industries. Perhaps it is appropriate for CEA to take the lead on the analysis -- and NEC to take the lead on the discussion?? I could use some guidance here.

i think these next steps also would help with our trade strategy. it puts us in the position of having heard some of the concerns of workers who are losing their jobs and unions who are concerned about a changing and global economy and responding in a thoughtful way. thanks, and please give me feedback on any of these ideas.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan Blinder <blinder@arundel.Princeton.EDU> (Alan Blinder <blinder@arundel.Princeton.EDU> [UNKNOWN])

CREATION DATE/TIME:25-FEB-1999 17:07:39.00

SUBJECT: Chapter 6 of ERP

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

TEXT:

I just read Ch. 6 of the ERP. Gee, it sounds as if the IMF/Treasury did everything right. What have I been complaining about?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:25-FEB-1999 15:52:01.00

SUBJECT: Re: 201 language iin US Trade Representative Testimony on Increase in Steel Imports

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

We had a small victory today as USTR was sneakingly trying to change our trade laws. They sent us at 10.00am with an 11.00am deadline Charlene's testimony on steel where she was suggesting that we were willing to sit down with Congress to weaken Section 201. Was able to stop that. See the exchange below.

Nouriel

----- Forwarded by Nouriel Roubini/CEA/EOP on 02/25/99
03:48 PM -----

Ronald L. Silberman
02/25/99 02:34:11 PM
Record Type: Record

To: Malcolm R. Lee/OPD/EOP
cc: Nouriel Roubini/CEA/EOP
bcc:
Subject: Re: 201 language iin US Trade Representative Testimony on
Increase in Steel Imports

Thanks for the catch, including the other sentence on consistent with our international obligations. This I think is really code for admitting willingness to weaken the injury test, a major and controversial move that could be quite protectionist in its effect.

Ron,

Malcolm R. Lee
02/25/99 12:36:12 PM
Record Type: Record

To: Nouriel Roubini/CEA/EOP@EOP, earp_gordana@ustr.gov @ INET @ VAXGTWY,
novick_robert@ustr.gov @ INET @ VAXGTWY, earp_gordana@ustr.gov @ INET @
VAXGTWY
cc: See the distribution list at the bottom of this message
bcc:
Subject: 201 language in US Trade Representative Testimony on
Increase in Steel Imports

Checked with Lael:

USTR has agreed to delete language on amendments to section 201 stating
"we are prepared to sit down with the Committee to ensure options under
consideration are consistent with our international obligations." Our
position will be "We have not yet reached an Administration view on
suggested amendments to 201."

Also sentence, "Obviously, we want our safeguards law to be as strong and
effective as possible, consistent with our international obligations"
will be changed to We strongly support a strong and effective
WTO-consistent safeguards mechanism. This was the formulation used in
the steel report.

Nouriel Roubini
02/25/99 11:00:03 AM
Record Type: Record

To: Annette E. Rooney/OMB/EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: US Trade Representative Testimony on Increase in
Steel Imports

CEA objects to the sentence in the testimony suggesting that the
Administration is willing to sit down with Congress to change the Section
201 statute ("we are prepared to sit down with the Committee to ensure
that options under consideration are consistent with our international
obligations.") Since a large number of agencies have strongly objected to
the modification of the Section 201 statute in recent and extensive
high-level discussions, it is inappropriate to signal that we are willing
to consider any modification of the statute. Such decisions have not been
taken in an inter-agency review and the sentence represents an unwarranted
opening to modify Section 201. Since the testimony is on steel and
changes in Section 201 statute would affect every good imported in the

country, extensive discussion in the testimony of Section 201 is inappropriate.

Also, the steel action plan referred only to safeguard issues and enforcement of existing Section 201 as one (and minor) of the many (7 elements) of the plan. The USTR testimony elevates the issue to one of the 4 points of the plans and start to make references to "strong safeguard laws". This appears to indirectly suggest that our safeguard laws are not strong and makes the opening to the later discussion of changing 201. This is again inappropriate. The testimony should stick to steel and steel issues, not to broad, controversial and radical changes in our trade laws; when talking about 201, it should just reaffirm our support of existing safeguard laws and the willingness to support "expeditious Section 201 investigation". Anything more is beyond current administration views and policy.

Nouriel Roubini

Annette E. Rooney
02/25/99 08:56:16 AM

Record Type: Record

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

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Subject: US Trade Representative Testimony on Increase in Steel Imports

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LRM ID: AER43
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Wednesday, February 24, 1999

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: John D. Burnim (for) Assistant Director for Legislative Reference

OMB CONTACT: Annette E. Rooney

PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: US Trade Representative Testimony on Increase in Steel Imports

DEADLINE: 11:00 AM Thursday, February 25, 1999

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: If you do not respond by the deadline, we will presume that your agency/office has no comment.

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LRM ID: AER43 SUBJECT: US Trade Representative Testimony on Increase in Steel Imports

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Annette E. Rooney Phone: 395-7300 Fax: 395-5691
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FROM: _____ (Date)

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The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet

Update on Trade-Related Elements of
The President's Comprehensive Plan for Steel

Testimony of Ambassador Charlene Barshefsky
United States Trade Representative

Trade Subcommittee of the House Committee on Ways and Means
February 25, 1999

Chairman Crane, Congressman Levin, Members of the Subcommittee, I appreciate the opportunity to discuss with you today the steel import surge, its impact on the U.S. market and industry, and the Administration's response.

INTRODUCTION

Last year, as we all know, steel imports rose sharply and rapidly, threatening, within a matter of months, the stability of our domestic industry and the jobs of many of its employees. In the April through November period, imports ran some 50 percent over historic levels across the industry, and at much higher levels in several key product sectors.

This import surge occurred in the context of the larger Asian and Russian financial crises, as a result of weakened demand for steel in Asian and other markets. Fairness demands that the U.S. steel industry, its workers, and their families not be asked to carry the burden of the financial crisis alone. Neither can the crisis become an excuse for our trading partners to adopt predatory export policies in steel or any other sector. Thus President Clinton is personally committed, as he has said

both here and abroad, and as he repeated in his State of the Union Address, to ensure that our trading partners act fairly, and will enforce our domestic trade laws to ensure this.

The Steel Report which the President sent to the Congress on January 7 provided a comprehensive and forceful set of actions to deal with the steel import surge and the associated unfair trade issues. This action plan is working and we are seeing the first signs of recovery. The Administration is determined to follow through until stability has been restored to the U.S. steel market. Our efforts to solve the steel crisis have been, and must remain, within the framework of our laws and our international commitments. First, we can and will lick this problem within this framework. Second, by sticking to the established rules, we can help ensure that the Asian crisis does not lead to a cycle of retaliation and protectionism which would badly damage our economy as a whole, and be especially dangerous to farmers, ranchers and manufacturing exporters who are already suffering due to weaker demand for our products abroad.

THE PRESIDENT'S ACTION PLAN

The President's steel action plan was developed with the benefit of advice and suggestions from industry and labor. It can be found on the USTR web page at www.ustr.gov/reports/steel99.pdf. The report outlines in detail steel import trends, their economic impact, and our response. This action plan includes four trade-related elements:

1. Vigorous and expeditious enforcement of laws to counter trade practices;
2. Bilateral efforts to address unfair trade practices at their sources;
3. Support for a strong safeguards law and for expeditious Section 201 investigations;
4. Creation of an early warning system for steel import monitoring.

The initiatives are the foundation for a comprehensive resolution of the steel import crisis in a balanced manner which will not damage other U.S. industries and workers by exposing them to retaliation or supply shortages. These principles have been translated into specific actions which are beginning to provide meaningful relief. We are confident that continued vigorous implementation of the President's steel action plan will bring about the result we all desire: a stable and competitive U.S. steel market where U.S. and foreign producers can compete fairly. In the days, weeks and months ahead, we will follow through on progress being made and take additional targeted actions where market conditions and imports warrant, in a manner consistent with our nation's overall economic interest.

Let me now turn to a more detailed review of the import surge, the current market situation, the status of our efforts, and next steps.

STEEL IMPORT TRENDS AND MARKET CONDITIONS

A. The 1998 Import Surge

I will begin by reviewing the trends in our steel trade and market over the past year.

Last year, 1998, witnessed the largest level of steel imports, the largest and fastest import growth, and the largest import penetration in history. Based on recently released final import statistics for December, our 1998 steel imports were 37.7 million metric tons (MMT) -- an increase of 33.3 percent, or 9.4 MMT over 1997. Steel import penetration rose from 23.8 percent in 1997 to 30.1 percent in 1998. This level exceeded U.S. domestic needs, causing a glut in the market and severe price suppression.

Between 1997 and 1998 U.S. steel shipments fell 3.5 percent, from 96 to 92.7 MMT. Labor statistics show a 10,000 worker drop in steel employment, from 236,000 workers in January 1997 and 1998, to 226,000 in January 1999 compared to an average annual decline of 1,225 jobs from 1993 through 1997.

Three countries -- Japan, Korea, and Russia -- accounted for the great bulk) 76.4 percent -- of this import surge. To update the information from the President's January Steel Report, in 1998:

-- Japan was the single largest source of steel imports at 6.1 MMT, up 163.4 percent or 3.8 MMT from 1997, accounting for 40.3 percent of the import growth;

-- Russia was the second largest supplier at 4.8 MMT, up 58.9 percent or 1.8 MMT, accounting for 18.9 percent of the import growth; and

-- Korea was the third largest source of the growth, with imports at 3.1 MMT, up 109.3 percent or 1.6 MMT, accounting for 17.3 percent of the import growth.

While these three countries accounted for the bulk of the steel import growth, imports from a number of other countries also rose substantially. In 1998, the United States imported steel from 68 countries (albeit in very small quantities from some). Steel imports from a dozen or so second-tier suppliers reached between 100,000 and 900,000 metric tons, and have potential to increase further. Notable import growth occurred from: the United Kingdom, Australia, Ukraine, South Africa, China, Indonesia, Taiwan, India, Luxembourg, Moldova, Romania, Latvia, and Kazakhstan. In addition, the European Union as a whole remains the single largest source of U.S. steel imports, supplying 6.6 MMT to our market in 1998, although overall steel imports from the EU were 4 percent below 1997 levels.

By product, carbon flat rolled steel was the single largest source of the import surge, accounting for 46.5 percent of the overall import increase. However, sharp import increases occurred in a range of other products, including heavy structurals, steel piling, light shapes, reinforcing bars, line pipe, pressure tubing, etc.

In sum, we saw import and market disruption levels of unprecedented

proportions in the U.S. steel market beginning in April of 1998. The first tentative signs of recovery are only now beginning to emerge.

B. First Signs of Recovery

The December 1998 steel import data provided the first indication that market conditions may have bottomed out, and that recovery can be anticipated.

At 2.6 MMT, December imports reflected a substantial decline from the average monthly import levels of 3.5 MMT from April through November 1998 import surge period. Although the December import figure remained 13 percent above the 2.3 MMT 1997 monthly import average, it reflected a sharp turn-around.

The December decrease was concentrated in carbon flat rolled products from Japan and Russia, which are subject to the ongoing antidumping investigation, indicating that actions taken by the industry, labor, and the Administration are bearing fruit. When compared to November levels, December imports of these products declined 67 percent. Declines were sharpest from the three countries under investigation, with imports from Japan down 77 percent, from Russia down 90 percent, and from Brazil down 84 percent.

This type of short-term decline does not by any means resolve the entire steel problem. A glut of steel products is still evident in the U.S. market, and high import levels of other products persist. However, the December decline is a significant first step, and a clear indication that the steps outlined in the President's steel action plan are beginning to work.

Several other market indicators are also positive. Steel demand in the United States remains strong and new orders are reportedly improving. In late January, a number of companies announced price increases of 5 percent to 8 percent per net ton (\$20 to \$30) on hot-rolled, cold-rolled, and coated sheets for second quarter shipments. Analysts believe these increases will likely succeed, as prices for these products are already quite depressed (down an average of 21 percent since May 1998), and as the import supply is being reduced due to ongoing unfair trade cases.

In January, U.S. raw steel production rose 5.1 percent from December and the capacity utilization rate rose to 77.2 percent from 74.8 percent over the same months. Nevertheless, these rates are still low when compared to the operating rates of 90 percent in January 1998 and 86.3 percent in December 1997.

Reflecting the drop in imports, import penetration (imports as a percent of apparent consumption) fell to 29.0 percent in December from 36.6 percent in November. Still, this level is far higher than the 20.6 percent level recorded in December 1997.

TRADE ACTION PLAN

These are some initial encouraging signs that the President's steel

action plan is working. Continued forceful pursuit of the policies and actions announced, and active monitoring of import and market conditions with a view to additional, targeted action, where needed, will be key in reestablishing the health and stability of the U.S. steel market. Following is an update on the trade related aspects of the President's action plan.

A. Unfair Trade Laws

The first and essential element of the steel action plan is vigorous and expeditious enforcement of the antidumping law and countervailing duty laws by the Commerce Department.

As you know, fully one third of some 300 antidumping and countervailing duty orders now being administered by the Department of Commerce address steel products. This remedy is well suited for the steel sector, in which the industry's cyclical nature and the high level of government intervention and support overseas have led to a high incidence of unfair trade. The industry is a strong proponent of this trade remedy, and has used it effectively to gain relief from unfairly traded and injurious imports.

That has been the case in this crisis. The Commerce Department's expedited investigations and the critical circumstances findings have resulted in relief for U.S. carbon flat rolled producers in record time, with retroactive effect to 90 days prior to the Commerce Department announcement of the preliminary dumping margins. Thus, in the case of Japan, the antidumping cash deposit and bonding requirements became effective only some six weeks from the joint industry and union filing of the dumping case. The trade laws have worked expeditiously to provide U.S. industry and workers with relief against unfair trade. Secretary Daley will elaborate on this element of the President's action plan.

The U.S. steel industry and workers filed additional dumping and countervailing duty petition on February 16th with respect to carbon cut-to-length steel plate imports from eight more countries which may have taken advantage of antidumping relief applied to products from Russia, Ukraine, China and South Africa.

In sum, the combined industry, labor, and Administration effort to pursue and implement actions to counter unfair trade are providing relief, in a manner fully consistent with U.S. international obligations.

B. Bilateral Action

Another key element of the President's steel action plan provides for bilateral initiatives with countries which are the key sources of the steel import growth: Japan, Russia, and Korea. Substantial progress has been made on this front as well.

1. Japan) The largest source of steel import growth last year was Japan. As reflected in the President's Steel Report to the Congress, in January the Administration informed the Japanese Government that we expect steel imports from Japan to revert to pre-crisis levels. We also informed Japan that, if such a roll-back does not occur in short order, the

Administration would self-initiate trade action to ensure a reduction of imports and to prevent further injury to U.S. steel producers and workers. Thus, the roll-back will be enforced, if necessary, through Administration trade action. Our intent is to act forcefully if normal trade patterns are not promptly restored.

Our interagency steel import team closely monitors and analyzes both Japanese monthly export data and U.S. monthly import data for all major steel categories. We are reviewing trends, levels, and U.S. market conditions, and in consultation with U.S. producers, we are assessing where trade action may be appropriate. Some of the trends are encouraging, but important concerns remain. Japan's exports of steel to the United States in December were 363,000 metric tons, and the preliminary export figure for January is 229,000 metric tons. This compares to the average monthly export rate of 680,000 tons from April through October 1998, and the peak of 908,000 tons in Japan's September exports to the United States. Japan's December steel exports of hot rolled sheet declined to a negligible level. Nevertheless, exports have not fully returned to pre-crisis levels. In particular, based on Japan's December export data, they remain substantially above traditional levels in several important product categories, such as structural shapes, and pipe and tube, as well as cut plate where a dumping case was filed on February 16.

At the same time, in our broader trade and economic relationship with Japan, we are pressing for the creation of domestic demand-led growth in Japan through fiscal stimulus, broad deregulation, financial reform, and meaningful market-opening measures. If fully implemented, these policies would create substantial opportunities for exporters and workers in America, other Pacific economies, and for Japanese workers and companies. Decisive action by the Government of Japan to implement such reforms are key to relieving global pressures which are at the root of the steel import crisis in the United States.

2. Russia -- On February 22 Secretary Daley announced a comprehensive set of steel agreements with Russia -- a suspension agreement on the carbon flat rolled dumping case, and a broader agreement under the market disruption article of the 1992 U.S. bilateral trade agreement with Russia. These agreements roll back and cap steel imports from Russia, the second largest source of our 1998 steel import surge.

The suspension agreement ensures that a) there will be a zero quota -- no imports from Russia of flat rolled products covered by the investigation for a period of six months, and b) the annual quota which goes into effect at that time, 750,000 metric tons, is 78.4 percent below our 1998 imports of this products from Russia and 58.4 percent below our 1997 imports of this product from Russia. The quota basically rolls back imports from Russia to their 1996 level. In addition, there are minimum price and strict monitoring provisions.

The second, broad, steel agreement with Russia covers imports of all other steel products as well as pig iron. It contains quotas on sixteen products which account for all of our imports from Russia, and rolls imports back to 1997 levels or below, reducing them by 68 percent from the

1998 import level.

Both agreements will be subject to public comment, and all views will be heard and considered. The key objective here is to offset any unfair trade margins, and to help restore predictability and stability in the U.S. market. This comprehensive approach to the Russian issue is particularly appropriate because the European Union had already negotiated a similar agreement with the Russian government which may have caused diversion of Russian steel to the U.S. market, something U.S. industry was particularly concerned about. This comprehensive approach also envisages opportunities for regular dialogue between U.S. and Russian government and steel industry representatives which can be used to provide technical assistance in the transformation of the Russian steel sector to market-based principles, and to sound environmental and managerial practices. We welcome U.S. industry and labor involvement in this dialogue.

3. Korea -- The third largest source of our steel import growth was South Korea. The President's Steel Report announced that our dialogue with Korea on steel trade and policy issues would be expanded and expedited. A Korean government and industry steel delegation visited Washington in late January and provided an update on government and industry efforts to restructure and privatize Korea's steel sector. The Administration, as well as U.S. steel industry and members of Congress, have had a longstanding concern with the Korean government's involvement in the steel sector through industrial policies which have favored steel and steel-using industries, and encouraged their growth and export-oriented capacity expansion, through incentives and directed lending. Hanbo Steel is the best-known example, but there are other examples as well.

In August of 1998 USTR exchanged letters with the Korean Ministry of Foreign Affairs and Trade which are aimed at ensuring that the sale of Hanbo Steel, which is in bankruptcy, is taking place through a market-driven, open, and transparent process in accordance with international practices. Hanbo's production of hot-rolled sheet has ceased pending its sale, Bankers Trust has been engaged to manage the sale.

In addition, the Korean government has offered general assurances that steel-related practices which have resulted in excess capacity in Korea and have been the cause of longstanding trade friction between our countries, have been abandoned. Accordingly, we have included in our steel discussion with Korea a set of objectives to ensure that real and substantive progress is made toward permanently getting the Korean government out of the steel business. Our broad objectives in these discussions include:

- a) Having the Government of Korea address anticompetitive activity in the Korean steel sector and ensure open competition inside Korea and in international trade;
- b) Expeditious, complete, and market-based privatization of Korea's largest steel producer, POSCO ;
- c) Implementation of the Hanbo sale and operation of the company on arms-length terms outlined in our August exchange of letters with Korea,

in a manner which will not engender government involvement (we sent a formal Report on this issues associated with Hanbo to Congress last December);and

d) Fair trade in steel products.

In our view, these are reasonable expectations. They are consistent with stated policies of the Korean government, and they must be implemented fully if we are to avoid continued trade friction in steel.

B. Section 201 Safeguards

A third key element in the President,s steel action plan is strong support for an effective safeguards provision in U.S. trade law, including his willingness to urge the ITC to expedite any section 201 safeguards investigations concerning steel.

U.S. industry and workers filed a petition for relief on steel wire rod under Section 201 in December of last year. The International Trade Commission (ITC) is now conducting an inquiry to establish whether injury has occurred or is being threatened in this segment of the industry. If the ITC reaches an affirmative conclusion under its legal procedures, the President will have the option to decide whether relief is appropriate. If a remedy is appropriate, he will have wide discretion to fashion it in a manner which is appropriate for this industry.

Because of its scope and flexibility, Section 201 is an extremely important and valuable trade remedy tool. As with the unfair trade remedies, the decision on when and whether to invoke it lies foremost with U.S. industry and workers. The Administration has met with steel industry and labor representatives to review market and import trends and to review assess relief options. Additional meetings will be held in light of the publication today of the preliminary import statistics for January.

C. Import Monitoring and Early Warning

The fourth trade-related point in the President,s steel action plan is the decision to release preliminary steel import data in order to create an early warning import monitoring system. Under this unprecedented new data release program, steel import statistics are made public almost a month sooner than the regular release schedule, some three weeks after the end of each month. Import trends are reviewed at senior levels of government and discussed with industry and labor representatives to assess their impact and options for import relief.

These import data releases have been invaluable in providing both the government and the industry with a real-time sense of import trends. Each month,s data are carefully analyzed by USTR and Commerce Department experts and the interagency import monitoring team to review trends by country and by product category in terms of volume and per unit import value. These trends are reviewed in light of most current information on U.S. market and industry developments.

Our particular focus at this time is threefold: 1) to carefully monitor

imports from Japan in light of the President's announcement that he expects imports from that country to revert to pre-crisis levels: 2) monitoring import trends for product categories that had been the subject of sharp import increases, to ascertain whether meaningful declines are underway; and 3) monitoring of imports from second-tier suppliers and the EU.

LEGISLATIVE INITIATIVES

In summary, our action plan, and our trade laws are in place, and beginning to provide the relief needed and deserved by U.S. steel producers and workers. While some have proposed that the steel import issue be resolved through the legislated imposition of import quotas or even temporary import bans, we believe this would be a grave mistake for our economy, and for our steel industry. While well intentioned, this type of action would create additional havoc in the U.S. market and undermine substantial progress we have made to date.

Unilateral imposition of quotas or import bans would ignore the fact that we already have effective trade remedy tools which are producing results. As I have discussed above, we have seen a substantial decline in imports in December; we have announced preliminary dumping and countervailing duties against unfair trade in record time; we have seen a substantial drop of imports from Japan; and, we have negotiated a comprehensive set of agreements with Russia. Additional trade cases, both under the unfair trade laws and under the safeguards mechanism (section 201) are pending, and the Administration has affirmed its support for their fair and expeditious review. Our action plan, and our trade laws are working and they are providing the relief needed and deserved by U.S. steel producers and workers. The crisis is by no means over, but we are seeing signs of recovery. Continued implementation of the President's action plan will ensure further progress. In particular, we are determined to carry on with our active import monitoring program with a view to ensuring that these positive trends continue, and that other countries do not increase their exports to undermine progress we have made.

Legislated imposition of trade remedies for steel outside of the established U.S. trade laws backfire by inviting trade retaliation by affected trading partners and causing damage to export-oriented U.S. industries and workers, some of which may already be adversely affected by reduced demand abroad. While trying to assist U.S. steel workers, quotas which are legislated outside of our trade laws could harm U.S. steel interests by prompting retaliation against export oriented US steel-using industries, such as autos and machinery.

Such legislation would also undermine the transparent and fair process which Congress has established under our trade laws which allow us to act in a balanced and fair manner which will not disadvantage one set of interests, producers or workers, at the expense of another. Unilaterally imposed quotas which do not arise from such a transparent review process, by contrast, are likely to favor one constituency, one set of U.S. producers and workers, over another.

Finally, legislated solutions which do not arise from the type of careful ITC analysis and interagency and industry consultation process can create severe distortions in the market which can add to, rather than resolve, economic problems. When not carefully considered, quotas can create shortages for user industries or result in excessive price-hikes. As our economy continues to grow, demand for steel products remains strong. Imposing quotas at this stage, when it looks like the market is beginning to stabilize could have the unintended effect of causing a panic in the market which could reverberate throughout the U.S. economy and undermine our nation's economic growth.

Other legislative proposals to improve U.S. trade laws will be reviewed by the Administration. For example, we are currently in the process of reviewing the proposals concerning Section 201. Section 201 is one of our most important trade laws and is critical for ensuring that our industries can make a positive adjustment to import surges when they occur. Obviously, we want our safeguards law to be as strong and effective as possible, consistent with our international obligations. While we have not yet reached an Administration view on the suggested amendments to Section 201, we are prepared to sit down with the Committee to ensure that options under consideration are consistent with our international obligations.

CONCLUSION

In conclusion, let me reiterate that prompt restoration of a stable U.S. steel market remains a top U.S. trade priority. We believe the President's steel action plan has begun to produce meaningful progress toward that end. Vigorous and expedited enforcement of U.S. trade laws has resulted in substantial relief from unfair trade. Imports from Japan have been rolled back almost to the pre-crisis levels. A comprehensive agreement has been negotiated with Russia which will substantially roll back imports and prevent new surges. Progress has been made in our dialogue with Korea, and additional results are anticipated shortly. Active import monitoring is underway based on the unprecedented early import data releases. And, the Administration has committed to do more as market and import trends warrant. Prices and capacity utilization are creeping up.

We are not ready to declare that the problem has been solved. We are fully aware of recessionary conditions and excess capacity abroad, and of the fact that the strong U.S. market will continue to act as a magnet, while the temptation to trade unfairly will persist. Nevertheless, we are pleased that actions taken to date have resulted in improvements, and we are committed to continue to vigorously enforce the President's comprehensive steel action plan. Working hand-in-hand with U.S. industry, labor, and Congress, we believe positive results will be achieved without jeopardizing broader U.S. economic interests.

Thank you for providing me with this opportunity to testify.

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

CREATION DATE/TIME:26-FEB-1999 10:33:33.00

SUBJECT: Follow-Up Labor Meeting

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

READ:UNKNOWN

TEXT:

----- Forwarded by Janet L. Yellen/CEA/EOP on 02/26/99
10:33 AM -----

Karen Tramontano
02/25/99 04:48:34 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Melissa G. Green/OPD/EOP, Paul A. Tuchmann/OVP @ OVP
Subject: Follow-Up Labor Meeting

I know I spoken briefly to each of you and said I would circulate a memo -- since I have not done that yet, I thought I would briefly update you on my thinking. I've also talked w/ Alexis Herman and Kitty Higgins. After the wonderful meeting John and I had in Florida -- I thought 4 next steps would be appropriate.

1. Pull together the economists in the Administration and schedule a meeting w/ the economists in the labor community to have the "deindustrialization" of America discussion. They believe it's as a result of trade -- I think we believe otherwise. I hope a thorough discussion of the issues, our areas of agreement and disagreement will be helpful. Janet has agreed to convene the meeting. If we could do this next week -- that would be great. We should have a pre-meeting to talk through the agenda/approach -- see previous e-mail

2. Pull together a policy meeting w/ labor community policy folks to answer the question: "What does it mean to include labor and environmental rights" in traditional trading authority. Lael/Rick have agreed to this process -- I'd include policy folks from labor/commerce/ustr -- Gerry Shea would like to exclude labor legislative folks -- and is trying to come up w/ the appropriate policy folks -- I am pushing him for times next week.

3. Have an internal discussion/analysis on economic incentives we provide to industry and go through a process to determine whether -- where we have made the decision to provide economic incentives--we can condition those incentives on requiring capital and the means of production to remain in

the united states -- (when the President spoke at the Steel workers, Machnists and Autoworkers Conference he spoke about his Sperling/Jackson initiative and they loved it because they heard it as jobs remaining in th eir communities) I don't know whether we can or if its good policy to condition incentives -- but I believe that if NEC could run a process to figure this out and we could talk about it as something we are looking at, it would be helpful

4. CEA, Labor, Commerce -- identify and analyze the growing sector of the economy to determine whether there are practical, economic, legal or other impediments to organizing workers in the growing sectors --- if there are, we should figure out whether there is legislative or other vehicles we could propose that may help to level the playing field. We would have to think this through very carefully, but we may be able to fashion an approach that puts us on the side of providing tools to workers in a changing economy and in growth industries. Perhaps it is appropriate for CEA to take the lead on the analysis -- and NEC to take the lead on the discussion?? I could use some guidance here.

i think these next steps also would help with our trade strategy. it puts us in the position of having heard some of the concerns of workers who are losing their jobs and unions who are concerned about a changing and global economy and responding in a thoughtful way. thanks, and please give me feedback on any of these ideas.

Message Sent

To:

Gene B. Sperling/OPD/EOP

Janet L. Yellen/CEA/EOP

Lael Brainard/OPD/EOP

Ron Klain/OVP @ OVP

Monica M. Dixon/OVP @ OVP

Richard M. Samans/OPD/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-FEB-1999 12:37:53.00

SUBJECT: comments on POTUS memo on financial svces legislation

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

READ:UNKNOWN

TEXT:

Since the fundamental content is presumably unchangeable, I have just a few wording changes:

1. In the first paragraph, and again at the top of the next page, I'd replace "financial services policymaking" with "regulating financial institutions".
2. In the last paragraph on the first page, I'd drop the sentence that financial modernization will occur even without legislation. It's true, but could cut against their case, because uncontrolled modernization might be as bad or worse than a bad bill. For example, they argue that the Gramm bill's silence on CRA would actually weaken CRA over time, but I'd guess that no legislation would have the same effect.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-FEB-1999 10:34:13.00

SUBJECT: Labor/Trade Follow-UP

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

READ:UNKNOWN

TEXT:

----- Forwarded by Janet L. Yellen/CEA/EOP on 02/26/99
10:34 AM -----

Karen Tramontano
02/25/99 02:19:36 PM
Record Type: Record

To: Michele Jolin/CEA/EOP
cc: Janet L. Yellen/CEA/EOP, Gene B. Sperling/OPD/EOP, Lael
Brainard/OPD/EOP
Subject: Labor/Trade Follow-UP

Michele,

I spoke w/ Janet the beginning of this week and asked her if she would convene a meeting of labor economists --as she did when we encountered difficulties w/ global climate change -- to begin a dialogue to hopefully develop a common framework in which to discuss trade, job loss etc. the labor community titles this dialogue as the deindustrialization of America --without agreeing to the caption -- I think the dialogue is worthwhile. If you would help me w/ three items -- I would greatly appreciate it

1. give me possible dates when Janet and other CEA economists have about 2 hours;
2. work w/ me on a list of other administration participants e.g. nec, labor, commerce, ustr
3. work w/ me to develop either an agenda or a list of topics through which we can structure the dialogue

the sooner we can put this meeting together -- the better. thanks, kt

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: bdief@macroadvisers.com@INET@LNGTWY (bdief@macroadvisers.com@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:26-FEB-1999 08:48:27.00

SUBJECT: GDP Fast Fact

TO: Janet L. Yellen@eop (Janet L. Yellen@eop [CEA])
READ:UNKNOWN

TEXT:
Dr. Yellen,

I am going to attach this morning's GDP Fast Fact since the problem we are having with our web site has not been fixed.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D6]MAIL456547166.036 to ASCII,
The following is a HEX DUMP:



FAST FACTS

GDP & Components

2/26/99

Billions of Chain-Type 1992 dollars	1996.4	1997.1	1997.2	1997.3	1997.4	1998.1	1998.2	1998.3	Prelim. 1998.4	Advance 1998.4	Revision Bil. of \$
GDP	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6	7566.5	7678.5	7670.0	8.5
Personal Consumption	4802.6	4853.4	4872.7	4947.0	4981.0	5055.1	5130.2	5181.8	5239.5	5237.8	1.7
Durable Goods	637.5	656.3	653.8	679.6	684.8	710.3	729.4	733.7	768.0	770.1	-2.1
Nondurable Goods	1465.1	1477.9	1477.1	1495.7	1494.3	1521.2	1540.9	1549.1	1564.5	1561.4	3.1
Services	2701.7	2722.1	2743.6	2775.4	2804.8	2829.3	2866.8	2904.8	2917.3	2916.8	0.5
Gross Private Dom. Inv.	1116.1	1156.6	1211.3	1215.8	1241.9	1321.8	1306.5	1331.6	1367.4	1369.8	-2.4
Fixed Investment	1080.4	1096.0	1127.0	1159.3	1169.5	1224.9	1264.1	1270.9	1314.4	1315.6	-1.2
Nonresidential	807.0	820.9	848.2	882.2	886.2	931.9	960.4	958.7	994.8	996.5	-1.7
Structures	200.6	202.5	199.3	205.2	205.7	203.1	201.9	202.0	205.7	204.8	0.9
Equipment	608.8	621.0	653.8	682.6	686.4	738.8	771.3	769.3	803.8	806.8	-3.0
Residential	276.3	278.4	282.5	282.3	287.9	298.5	309.1	316.5	324.5	324.2	0.3
Change in Inventories	32.1	56.3	79.0	51.0	66.5	91.4	38.2	55.7	47.8	48.9	-1.1
Farm	3.3	-0.5	6.8	7.3	3.7	5.3	8.7	9.1	7.6	7.8	-0.2
Nonfarm	28.7	56.2	72.1	44.0	62.7	85.9	29.9	47.0	40.7	41.7	-1.0
Net Exports	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.5	-262.9	12.4
Exports	911.1	929.4	963.6	988.1	998.8	991.9	972.1	965.3	1010.6	1007.7	2.9
Merchandise	667.4	691.4	719.1	740.6	754.9	748.5	726.3	727.3	769.0	766.1	2.9
Services	244.9	240.7	247.5	251.1	248.6	247.8	248.8	242.1	247.4	247.2	0.2
Imports	1007.0	1050.9	1095.2	1130.5	1147.8	1190.4	1217.3	1224.3	1261.1	1270.6	-9.5
Merchandise	859.0	896.8	937.4	966.7	981.8	1021.0	1048.8	1056.3	1092.7	1101.8	-9.1
Services	149.0	155.3	159.2	165.2	167.5	171.3	171.0	170.8	172.0	172.5	-0.5
Government											
Consumption & Gross Inv	1271.2	1277.7	1284.4	1288.9	1289.2	1283.0	1294.8	1299.6	1311.7	1303.7	8.0
Federal	459.5	456.3	460.4	458.9	456.5	446.1	454.1	452.5	460.6	455.6	5.0
Defense	313.0	305.0	311.7	310.2	308.7	293.3	300.3	303.5	304.5	302.6	1.9
Nondefense	146.1	150.7	148.2	148.2	147.3	151.9	152.9	148.4	155.3	152.3	3.0
State & Local	811.8	821.5	824.2	830.1	832.9	837.1	840.9	847.3	851.3	848.3	3.0

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[Automated Records Management System Hex-Dump Conversion]



FAST FACTS

GDP & Components

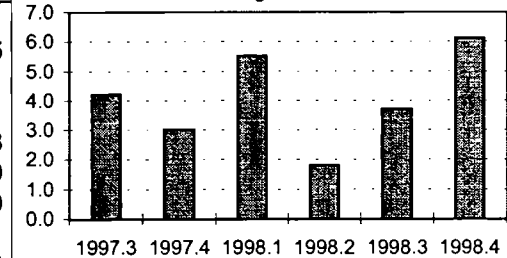
2/26/99

% change annual rate	1997.3	1997.4	1998.1	1998.2	1998.3	Prelim. 1998.4	Advance Revision 1998.4	% points
GDP	4.2	3.0	5.5	1.8	3.7	6.1	5.6	0.5
Personal Consumption	6.2	2.8	6.1	6.1	4.1	4.5	4.4	0.1
Durable Goods	16.8	3.1	15.8	11.2	2.4	20.1	21.4	-1.3
Nondurable Goods	5.1	-0.4	7.4	5.3	2.1	4.1	3.2	0.9
Services	4.7	4.3	3.5	5.4	5.4	1.7	1.7	0.0
Gross Private Dom. Inv.	1.5	8.9	28.3	-4.5	7.9	11.2	12.0	-0.8
Fixed Investment	12.0	3.6	20.4	13.4	2.2	14.4	14.8	-0.4
Nonresidential	17.0	1.8	22.2	12.8	-0.7	16.0	16.7	-0.7
Structures	12.4	0.9	-4.9	-2.3	0.2	7.4	5.5	1.9
Equipment	18.8	2.2	34.3	18.8	-1.0	19.2	21.0	-1.8
Residential	-0.4	8.2	15.6	15.0	9.9	10.6	10.1	0.5
Change in Inventories*	-28.0	15.5	24.9	-53.2	17.5	-7.9	-6.8	
Farm*	0.5	-3.6	1.6	3.4	0.4	-1.5	-1.3	
Nonfarm*	-28.1	18.7	23.2	-56.0	17.1	-6.3	-5.3	
Net Exports**	-142.4	-149.0	-198.5	-245.2	-259.0	-250.5	-262.9	
Exports	10.6	4.4	-2.8	-7.7	-2.8	20.2	18.8	1.4
Merchandise	12.5	7.9	-3.4	-11.3	0.6	25.0	23.1	1.9
Services	5.9	-4.0	-1.2	1.7	-10.4	9.0	8.7	0.3
Imports	13.5	6.3	15.7	9.3	2.3	12.6	16.0	-3.4
Merchandise	13.1	6.4	17.0	11.4	2.9	14.5	18.4	-3.9
Services	15.8	5.8	9.3	-0.6	-0.6	3.0	4.2	-1.2
Government								
Consumption & Gross Inv	1.4	0.1	-1.9	3.7	1.5	3.8	4.1	-0.3
Federal	-1.2	-2.1	-8.8	7.3	-1.4	7.3	7.9	-0.6
Defense	-1.8	-2.0	-18.5	9.9	4.3	1.3	1.2	0.1
Nondefense	-0.1	-2.3	13.1	2.6	-11.5	20.0	21.8	-1.8
State & Local	2.9	1.3	2.1	1.8	3.1	1.9	2.1	-0.2

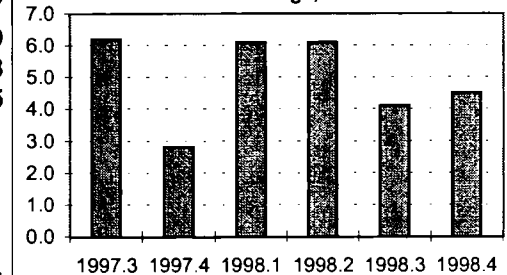
* Delta, previous quarter, billions of 1992 dollars

** Billions of 1992 dollars

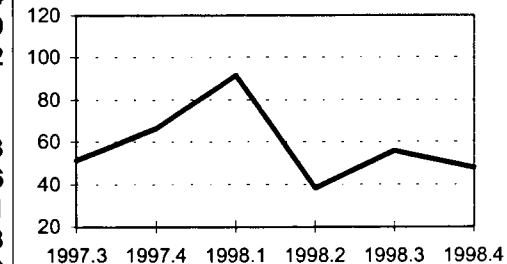
Real GDP Growth
% change, a.r.



Real PCE Growth
% change, a.r.



Inventory Investment
Billions of Chained 1992 dollars



RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: bdief@macroadvisers.com@INET@LNGTWY (bdief@macroadvisers.com@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:26-FEB-1999 09:33:55.00

SUBJECT: GDP Fast Fact

TO: Janet L. Yellen@eop (Janet L. Yellen@eop [CEA])
READ:UNKNOWN

TEXT:
Dr. Yellen,

There was an error in the first fast fact that I sent you earlier. Under the Gov't CGI the advance numbers were incorrect. I have corrected these and have attached the latest Fast Fact.

Sorry for the inconvenience===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D32]MAIL465508169.036 to ASCII,
The following is a HEX DUMP:



FAST FACTS

GDP & Components

2/26/99

Billions of Chain-Type 1992 dollars	1996.4	1997.1	1997.2	1997.3	1997.4	1998.1	1998.2	1998.3	Prelim. 1998.4	Advance 1998.4	Revision Bil. of \$
GDP	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6	7566.5	7678.5	7670.0	8.5
Personal Consumption	4802.6	4853.4	4872.7	4947.0	4981.0	5055.1	5130.2	5181.8	5239.5	5237.8	1.7
Durable Goods	637.5	656.3	653.8	679.6	684.8	710.3	729.4	733.7	768.0	770.1	-2.1
Nondurable Goods	1465.1	1477.9	1477.1	1495.7	1494.3	1521.2	1540.9	1549.1	1564.5	1561.4	3.1
Services	2701.7	2722.1	2743.6	2775.4	2804.8	2829.3	2866.8	2904.8	2917.3	2916.8	0.5
Gross Private Dom. Inv.	1116.1	1156.6	1211.3	1215.8	1241.9	1321.8	1306.5	1331.6	1367.4	1369.8	-2.4
Fixed Investment	1080.4	1096.0	1127.0	1159.3	1169.5	1224.9	1264.1	1270.9	1314.4	1315.6	-1.2
Nonresidential	807.0	820.9	848.2	882.2	886.2	931.9	960.4	958.7	994.8	996.5	-1.7
Structures	200.6	202.5	199.3	205.2	205.7	203.1	201.9	202.0	205.7	204.8	0.9
Equipment	608.8	621.0	653.8	682.6	686.4	738.8	771.3	769.3	803.8	806.8	-3.0
Residential	276.3	278.4	282.5	282.3	287.9	298.5	309.1	316.5	324.5	324.2	0.3
Change in Inventories	32.1	56.3	79.0	51.0	66.5	91.4	38.2	55.7	47.8	48.9	-1.1
Farm	3.3	-0.5	6.8	7.3	3.7	5.3	8.7	9.1	7.6	7.8	-0.2
Nonfarm	28.7	56.2	72.1	44.0	62.7	85.9	29.9	47.0	40.7	41.7	-1.0
Net Exports	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.5	-262.9	12.4
Exports	911.1	929.4	963.6	988.1	998.8	991.9	972.1	965.3	1010.6	1007.7	2.9
Merchandise	667.4	691.4	719.1	740.6	754.9	748.5	726.3	727.3	769.0	766.1	2.9
Services	244.9	240.7	247.5	251.1	248.6	247.8	248.8	242.1	247.4	247.2	0.2
Imports	1007.0	1050.9	1095.2	1130.5	1147.8	1190.4	1217.3	1224.3	1261.1	1270.6	-9.5
Merchandise	859.0	896.8	937.4	966.7	981.8	1021.0	1048.8	1056.3	1092.7	1101.8	-9.1
Services	149.0	155.3	159.2	165.2	167.5	171.3	171.0	170.8	172.0	172.5	-0.5
Government											
Consumption & Gross Inv	1271.2	1277.7	1284.4	1288.9	1289.2	1283.0	1294.8	1299.6	1311.7	1312.7	-1.0
Federal	459.5	456.3	460.4	458.9	456.5	446.1	454.1	452.5	460.6	461.2	-0.6
Defense	313.0	305.0	311.7	310.2	308.7	293.3	300.3	303.5	304.5	304.5	0.0
Nondefense	146.1	150.7	148.2	148.2	147.3	151.9	152.9	148.4	155.3	155.9	-0.6
State & Local	811.8	821.5	824.2	830.1	832.9	837.1	840.9	847.3	851.3	851.7	-0.4



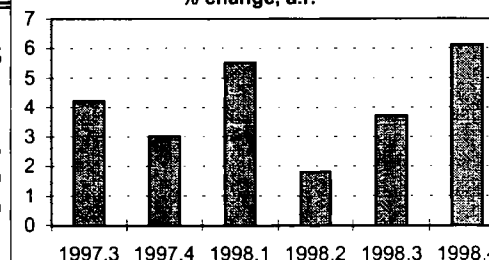
FAST FACTS

GDP & Components

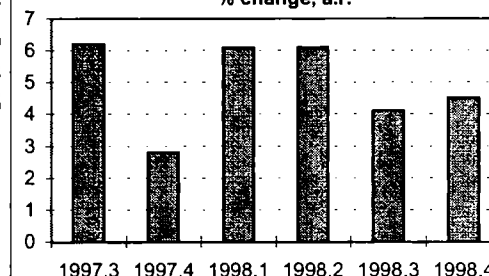
2/26/99

% change annual rate	1997.3	1997.4	1998.1	1998.2	1998.3	Prelim. 1998.4	Advance Revision 1998.4	% points
GDP	4.2	3.0	5.5	1.8	3.7	6.1	5.6	0.5
Personal Consumption	6.2	2.8	6.1	6.1	4.1	4.5	4.4	0.1
Durable Goods	16.8	3.1	15.8	11.2	2.4	20.1	21.4	-1.3
Nondurable Goods	5.1	-0.4	7.4	5.3	2.1	4.1	3.2	0.9
Services	4.7	4.3	3.5	5.4	5.4	1.7	1.7	0.0
Gross Private Dom. Inv.	1.5	8.9	28.3	-4.5	7.9	11.2	12.0	-0.8
Fixed Investment	12.0	3.6	20.4	13.4	2.2	14.4	14.8	-0.4
Nonresidential	17.0	1.8	22.2	12.8	-0.7	16.0	16.7	-0.7
Structures	12.4	0.9	-4.9	-2.3	0.2	7.4	5.5	1.9
Equipment	18.8	2.2	34.3	18.8	-1.0	19.2	21.0	-1.8
Residential	-0.4	8.2	15.6	15.0	9.9	10.6	10.1	0.5
Change in Inventories*	-28.0	15.5	24.9	-53.2	17.5	-7.9	-6.8	
Farm*	0.5	-3.6	1.6	3.4	0.4	-1.5	-1.3	
Nonfarm*	-28.1	18.7	23.2	-56.0	17.1	-6.3	-5.3	
Net Exports**	-142.4	-149.0	-198.5	-245.2	-259.0	-250.5	-262.9	
Exports	10.6	4.4	-2.8	-7.7	-2.8	20.2	18.8	1.4
Merchandise	12.5	7.9	-3.4	-11.3	0.6	25.0	23.1	1.9
Services	5.9	-4.0	-1.2	1.7	-10.4	9.0	8.7	0.3
Imports	13.5	6.3	15.7	9.3	2.3	12.6	16.0	-3.4
Merchandise	13.1	6.4	17.0	11.4	2.9	14.5	18.4	-3.9
Services	15.8	5.8	9.3	-0.6	-0.6	3.0	4.2	-1.2
Government								
Consumption & Gross Inv	1.4	0.1	-1.9	3.7	1.5	3.8	4.1	-0.3
Federal	-1.2	-2.1	-8.8	7.3	-1.4	7.3	7.9	-0.6
Defense	-1.8	-2.0	-18.5	9.9	4.3	1.3	1.2	0.1
Nondefense	-0.1	-2.3	13.1	2.6	-11.5	20.0	21.8	-1.8
State & Local	2.9	1.3	2.1	1.8	3.1	1.9	2.1	-0.2

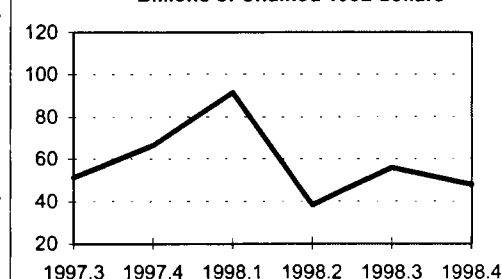
Real GDP Growth
% change, a.r.



Real PCE Growth
% change, a.r.



Inventory Investment
Billions of Chained 1992 dollars



* Delta, previous quarter, billions of 1992 dollars

** Billions of 1992 dollars